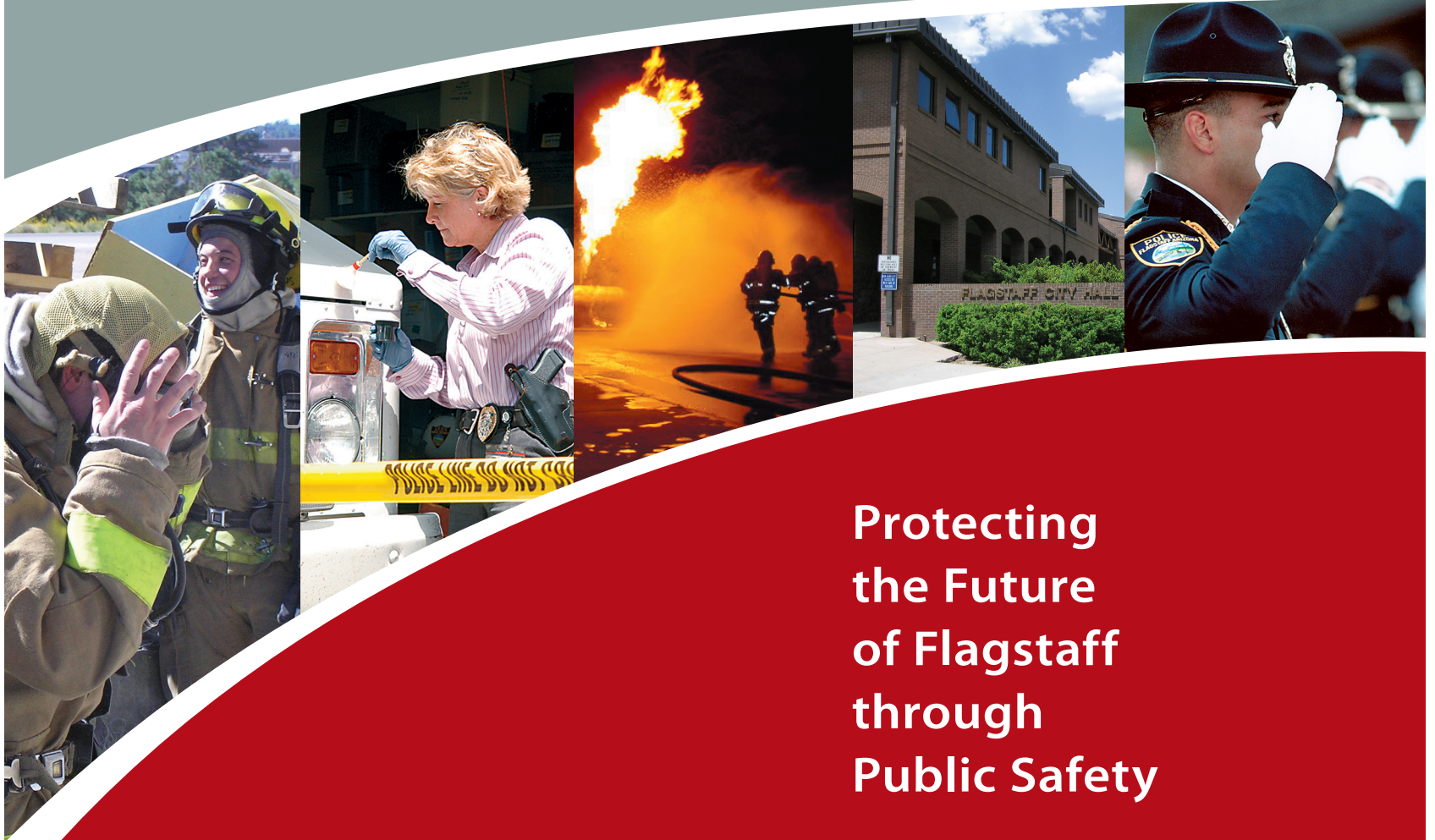


Flagstaff, Arizona 2007



**Protecting
the Future
of Flagstaff
through
Public Safety**

**City of Flagstaff
Comprehensive Annual
Financial Report**

**Fiscal Year Ended
June 30, 2007**

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2007

City of Flagstaff, Arizona



Prepared By:
Management Services Department
Finance and Budget Division

City of Flagstaff
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

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City of Flagstaff

December 11, 2007

The Honorable Mayor, City Council and Citizens of the City of Flagstaff, Arizona

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2007, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Flagstaff. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flagstaff has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Flagstaff's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flagstaff's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Nordstrom & Associates, PC, a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flagstaff was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flagstaff's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Flagstaff's MD&A can be found immediately following the report of the independent auditors.

CITY OF FLAGSTAFF PROFILE

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population as of the 2006 estimate by the Arizona Department of Economic Security is approximately 62,030. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nation's centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City manager, in turn, appoints City employees and department heads under service procedures specified by Charter. City service departments provide a full range of services including General Government, police and fire protection, Environmental Services, Transportation, Library, Parks and Recreation, Airport, Water and Sewer, and Stormwater Services.

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the department level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

Local economy

The City's employment base continues to be heavily government based. Although this provides stability to the economy during declines, it is subject to other factors. This year the Arizona state retirement system again increased employee mandated contributions which effectively reduced local disposable incomes for individuals working for the City, County, Community College, and Flagstaff Unified School District and to some extent Northern Arizona University. The City continues to see further development as a second home market to the residents of Phoenix and its surrounding areas. The City anticipates land development to slow as there are less residential lots available for construction and commercial land is at premium. However, despite these factors, we have seen 4.4 % growth in our retail sales, excluding BBB. BBB maintained its rebound which represents approximately, 16% of receipts. BBB receipts grew by 7% as a result of strong tourism in the region due growth in population in Phoenix. Auto sales had a slight increase of 3.0% and commercial rentals increased 11.5%. Construction activity remained strong throughout FY 2007, growing by 10.2%

The Council goals have also provided for the expansion of the local Mall, which is a regional shopping center. The Mall expansion includes the construction of an Auto mall. Phase One of the Mall Development is complete. Construction of Phase Two has not yet begun and the Auto Mall is anticipated to be completed over the next two years. This project is a real boom to the local economy. It is a known fact that there is a significant loss of sales tax revenues to the Phoenix area for many retail items. This is exemplified when a new retailer such as Home Depot opened its first store in town and we experienced real retail growth of 35% in the building materials category. When completed, the Mall will add approximately 485,000 square feet of additional retail space and several new auto dealers with additional manufacturers to the market. Sales tax receipts benefit from both construction dollars spent at the mall and in additional retail sales.

LONG-TERM FINANCIAL PLANNING

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Flagstaff's fiscal health.

STRATEGIC FINANCIAL PLAN

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, due to the tenuous economic recovery, Flagstaff's financial forecast includes very modest revenue growth, potential for State reductions of revenue sharing, and continued increases in demand for city services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

Financial Resource Planning – Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well being of Flagstaff. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required capital project plans are sized to conform to existing debt management policies.

CASH MANAGEMENT POLICIES AND PRACTICES

The City's investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds are invested in the State Treasurer's Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits and repurchase agreements. The maturities of the investments range from one day to 6 years. The average yield on investments was 4.4%.

RISK MANAGEMENT

The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers' compensation. In addition, the City's Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses. Additional information on the City of Flagstaff risk management activity can be found in Note.V.A in the notes to the financial statements.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

All full-time employees of the City are covered by one of three pension plans. The State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer, cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Council members contribute to the State's Elected Officials plan that is also a multiple-employer cost-sharing pension plan.

Additional information on the City of Flagstaff pension arrangements can be found in Note V.C. in the notes to the financial statements.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2006–2007, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2006–2007.

Economic Development/Redevelopment

The City looks to maintain and strengthen Flagstaff as the regional center for retail, employment, and hospitality while enhancing the quality of life for our residents. The economic investment accomplishments include:

- **Entrepreneurial Development:** The City through a \$3.2 million grant that originated with NAU is constructing a Business Incubator to develop start-up technology businesses to provide higher paying jobs in the future. The facility is located on the USGS Science Campus and is anticipated to be complete mid-year 2008.
- **Community Reinvestment Marketing:** The City continued an aggressive marketing campaign in national trade magazines to raise awareness about the advantages of our community to potential developers, lenders, investors, and tenants.
- **East Flagstaff Gateway Area:** Complete a Redevelopment Area Plan for East Flagstaff so that it serves as an anchor and gateway to the City. The Mall expansion and Auto Park development are two key components to this strategy. The Mall Phase I expansion was completed in the fall of 2007 and Phase II and the Auto Mall are projected to be complete in 2008.
- **Aspen Place at Sawmill:** This development project broke ground in 2007 and will create a mixed-use neighborhood center. It will serve as an anchor to the Butler Avenue corridor and provide an eventual link to the Southside and NAU. This project was partially funded a special assessment bond (\$19.1 million) and is anticipated to be complete in 2008.
- **Downtown:** The City continues to address issues regarding the Downtown area continued economic viability. Issues include on-street parking, store turnover, event impacts, and imaging. The City is evaluating the implementation of parking fees to enhance stewardship and maintenance concerns.

Fiscal Health

The City shall maintain good fiscal health through sound financial management and fiscal integrity. Fiscal accomplishments include:

- Continued work with Environmental Services staff to incorporate sustainable goods and processes in the procurement process. The City purchased hybrid vehicles for police, public works, and community development.
- Exploration of electronic opportunities for on-line access to employees and citizens to reduce redundancy and paperwork. The City has purchased software to provide online access to utility billing (implemented), vendor registration and employee access to payroll information (implementation scheduled for 2008).
- Leverage grants for city projects and programs. \$19.3 million in grant revenue was budgeted for FY2007 of which \$12.5 million was received.

Public Safety

The City Council recognizes that the role of public safety encompasses a broad array of interrelated activities. Public order and quality of life issues must be addressed on a broad front through a partnership of shared responsibility and trust between Police, Fire, other city departments, civic organizations and the community. Community safety and well-being must be built from within each neighborhood and cannot be imposed from the outside. The City and the Police department conducted numerous community activities that strengthen neighborhoods. These included 130 block watch meetings, youth celebrations and formal gang and drug education in the schools, and two citizen police academies. Activities also include our community partners. The City funds an after school program activities at various school district sites and works with United Way, whom supports numerous agencies in the community to promote the basic skills children need and other services.

Affordable Housing

The goals are manifold to address affordable housing in a community with such a severe deficiency. Affordable housing includes the needs of the community from rentals, to first time home buyers, homeless and general affordability issues across the entire workforce. There is no one tool that will solve this issue but must be dealt with for the entire city. Efforts for FY2007 included:

- The provision of funding and administrative oversight for public improvements to 16 Land Trust Program homes; homebuyer education and assistance; housing stabilization assistance; homebuyer assistance savings accounts; and various other programs.
- Participation in community efforts to open two temporary homeless shelters
- Met with developers to incorporate workforce housing units into upcoming developments within the City where appropriate.

Capital Improvements

Programmed capital infrastructure expenditures facilitate planned growth, economic development and protects existing community investments. Allocating resources through a coordinated planning and engineering process, with high levels of public involvement, assures our community is shaped in alliance with citizen support. The Capital Division worked on numerous projects through the year and continues to refine the process. Elements that were implemented included a schedule based work program, comprehensive 5-year CIP program, team chartering, project review process, and monthly financial reporting.

Customer Service

A positive customer service culture will enhance the delivery of service both externally and internally. The Customer Service Committee conducted an internal customer service survey to determine how and in what ways internal customer service could be improved. In addition, an Ethics Policy has developed to underscore the importance of maintaining the highest standards of personal integrity, truthfulness, honesty, and fairness in carrying out public duties.

Planning for Growth

With a finite supply of land, we have to provide for the region's growth in a manner that balances growth and conservation. Efforts for FY2007 include the continued development of the many planned Flagstaff Urban Trail System (FUTS), with the premier project as the Cedar Avenue urban trail bridge and the retention of open space through acquisition and/or private partnerships. Several large planned developments continued in the planning stages some of which included rezoning processing, conditional use permits, and/or annexation consideration.

Collaboration

Collaboration strengthens the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies and developing collaborative goals at all levels. The City continues its role with the alliance group that is comprised of Coconino County, Northern Arizona University, Coconino Community College, and the Flagstaff Unified School District. The alliance group continued its support of education with a unified statement to the state legislature supporting the funding of education as a primary goal to the success of the state, community and the vitality of economic development.

Quality of Life

Consideration is given to quality of life preservation and enhancement in all City actions and appropriations. This is a diverse objective with many outcomes. This year brought about a year of implementation for the many projects that will add value and character to our community. City efforts included the expansion of the commercial recycling accounts, the expansion of sustainability objectives, continuing of brownfield efforts, the renovation of the Adult Center, completion of the Thorpe Park Improvement project, and increased special events particularly the Winter Wonderland promotion.

Forest Health

Flagstaff resides in the middle of the largest stand of Ponderosa pine in the world. This provides a key element to the City situated at the base of the San Francisco Peaks at a 7,000 foot elevation a cool mountain environment. Unfortunately with this amenity comes the risk of catastrophic wildfire. The City continues to be proactive in the implementation of a major forest health initiative. In fact, the City is recognized nationally for its successful program. The program includes active thinning on City property within the City, community outreach to educate and assist the private sector in good health management, assistance with other governmental agencies in forest management and collaboration with the Forest Service and environmental groups in a forest management plan for the areas in and around City property.

The outcome of the program has been an aggressive thinning of the forest and excellent public education resulting in private sector management of their trees. The Greater Flagstaff Forest Partnership, with collaboration of public, private and environmental groups, has successfully initiate major thinning projects in the Federal land that meets all parties' objectives.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flagstaff for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 13th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA award for Distinguished Budget Presentation for our 2007–2008 annual

budget with special performance measures recognition. In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

A special word of appreciation is due to Barbara Goodrich, Finance Budget Manager and to the entire finance staff who prepared this CAFR. As an organization we would be remiss to not also personally recognize Maryellen Pugh, CPA for her tireless efforts in directing the statement drafting and coordination.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditor, Nordstrom and Associates, also contributed significantly to this report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mary Jo Jenkins", with a long horizontal flourish extending to the right.

Mary Jo Jenkins
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

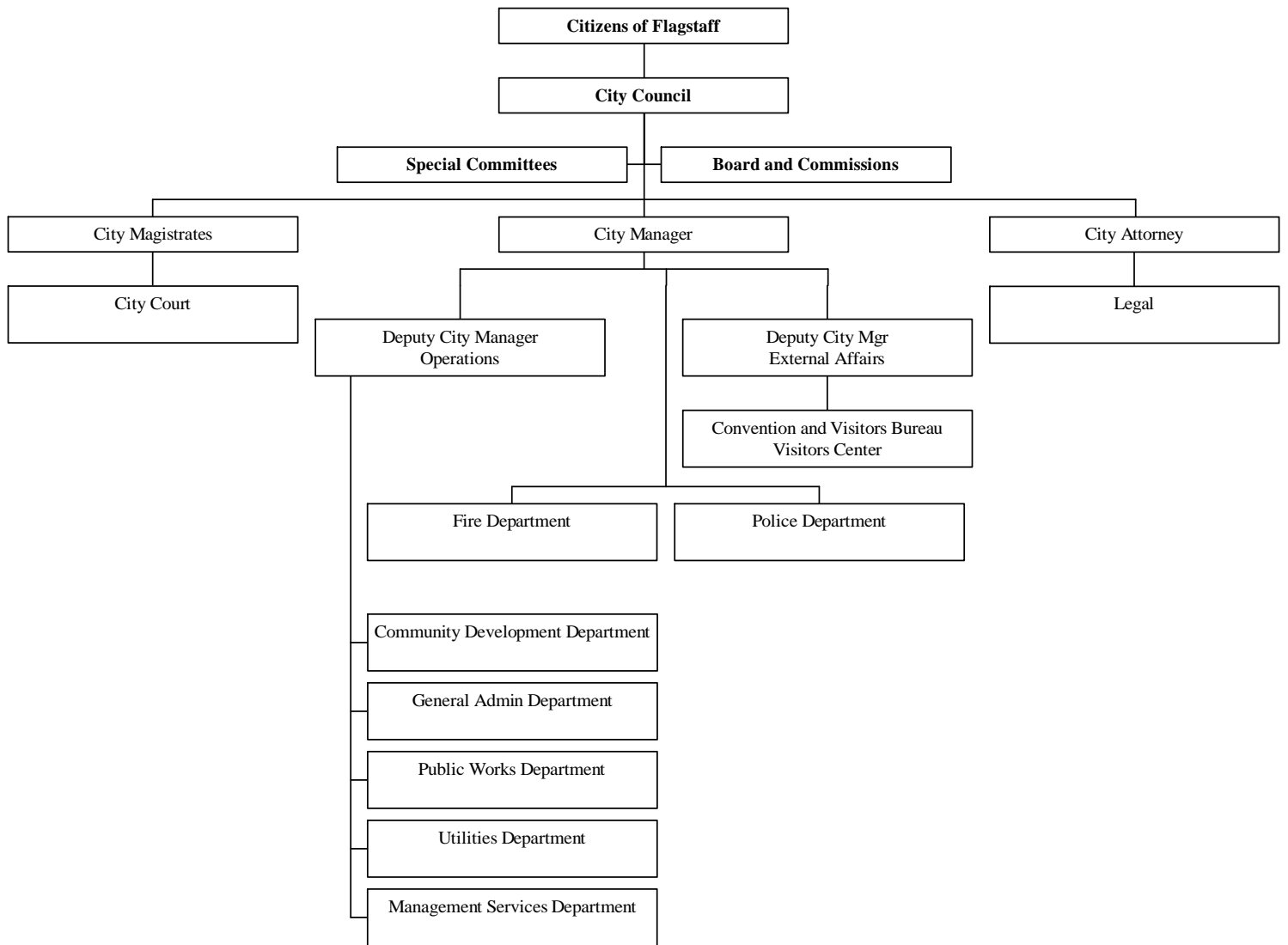
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2007

Elected Officials

Mayor	Joseph C. Donaldson
Vice Mayor	Scott Overton
Councilmember	Karen K. Cooper
Councilmember	Joseph P. Haughey
Councilmember	Kara M. Kelty
Councilmember	Rick Swanson
Councilmember	Al White

Appointed Officials

City Manager	John Holmes
City Attorney	Patricia Boomsma
City Treasurer	Mary Jo Jenkins
City Clerk	Margie Brown



Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Marjorie T. McClanahan, CPA

Timothy D. Hansen, CPA



MEMBERS

American Institute of
Certified Public Accountants

Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general, highway user revenue, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the City retroactively reported all major infrastructure assets as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

The management’s discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. In addition, the introductory section, combining and individual fund statements and schedules, capital assets schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules, and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters . The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
December 21, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –x of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$540.9 million (net assets). Of this amount \$55.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$47.6 million during the fiscal year. This increase is related to capital improvement activity both internally funded and funded through contributions from private development. Private development contributions totaled \$22.9 million in for the year ended June 30, 2007 and projects include the Mall development (\$11.5 million), Anasazi subdivision (\$3 million), and a number of other residential improvements. The remaining \$8.4 million are contributions for 22 separate projects. Other major capital asset additions include the airport runway extension, Thorpe Park improvements, continuing work on fire stations, the Aquaplex, Aspen Place at Sawmill, and Wildcat Hill Wastewater Treatment plant improvements, Sunnyside neighborhood improvements, and the Rio de Flag drainage improvement.
- As of June 30, 2007, the City's governmental funds reported combined ending fund balances of \$94.9 million, an increase of \$13.1 million in comparison with the prior fiscal year. Approximately 48.8% of this total amount (\$46.3 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2007, total unreserved fund balance for the general fund was \$29.9 million, or 66.6% of total general fund expenditures (\$44.9 million).
- As of June 30, 2007, the City's proprietary funds reported combined total net assets of \$286.4 million, and total unrestricted net assets of \$19.6 million. \$15.2 million of the unrestricted net assets are in the Water and Wastewater Fund.
- The beginning fund balance for governmental activities in the Statement of Activities and the Statement of Revenue, Expenditure, and Changes in Fund Balance has been restated due to an error in accounting estimates as related to the recognition of state shared revenue and also due to the capture of historical infrastructure assets (\$0.6 million and \$91.1 million, respectively). Detail information can be found on page 57 within the footnotes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also for the Municipal Property Corporation (MPC). The MPC, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The government-wide financial statements can be found on pages 17 – 19 of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, BBB fund, and the Capital Projects Bond Construction fund which are all considered to be major funds. Data from the remaining governmental funds are combined into

a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 20 – 31 of this report.

Proprietary funds: Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City used enterprise funds to account for Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. All are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 32–39 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 40–41 of this report.

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43–81 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 84–87.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the City's capital asset activity. Other supplementary information can be found on page 90–92 of this report.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$540.9 million as of June 30, 2007.

Of the City's net assets, 86.7% reflects its investment of \$468.9 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets June 30, 2007 and 2006 (in thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006 (as restated)	2007	2006	2007	2006 (as restated)
Current and other assets	\$ 125,511	\$ 104,293	\$ 67,196	\$ 37,064	\$ 192,707	\$ 141,357
Capital assets	243,623	228,325	295,356	257,103	538,979	485,428
Total assets	369,134	332,618	362,552	294,167	731,686	626,785
Long-term liabilities	88,765	74,655	58,397	29,703	147,162	104,358
Other liabilities	25,464	17,360	18,081	11,733	43,545	29,093
Total liabilities	114,229	92,015	76,478	41,436	190,707	133,451
Invested in capital assets, net of related debt	204,595	184,594	264,382	230,035	468,977	414,629
Restricted	13,796	45,561	2,425	2,393	16,221	47,954
Unrestricted	36,514	10,448	19,267	20,303	55,781	30,751
Total net assets	\$ 254,905	\$ 240,603	\$ 286,074	\$ 252,731	\$ 540,979	\$ 493,334

Both total assets and total liabilities increased due to the debt issued for the various capital projects. The four new issues include \$19.1 million in special assessments, \$23.1 million for Wildcat Wastewater Treat Plan improvements, \$7.9 million to accommodate the purchase of water rights, and \$2.0 million for energy improvements.

A portion of the City's net assets, \$16.2 million (3.0%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$55.8 million (10.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities increased by 20.3% (\$21.2 million). This is due to unspent bond proceeds. Bonds totaling \$19.1 million were issued to fund improvements through a special assessment at the Aspen Place at Sawmill.

Capital assets of the governmental activities, funded through debt proceeds, grants, and contributions, increased by 6.7% (\$15.3 million) due to the 4th Street project (\$2.4 million), Thorpe Park improvements (\$3.9 million), fire stations (\$3.1 million), and East Flagstaff Gateway improvements (\$5.1 million). This is in addition to a \$91.9 million dollar prior period adjustment for the inclusion of historical infrastructure. Infrastructure additions include bridge structures, streets, sidewalks, traffic signals, right of way, and drainage improvements in our City. These are assets acquired prior to 2003 (the implementation date for GASB 34) dating back to the late 1800's.

Governmental activities long-term liabilities increased by 18.9% (\$14.1 million) due to the additional debt related to capital plan as previously discussed. Other liabilities increased by 46.7% (\$8.1 million) due to accounts payable increases as related to outstanding construction contracts at fiscal year end.

Overall business-type net assets increased by 13.2% (\$33.3 million) also due primarily to capital asset additions. Capital assets, net of related debt increased by \$34.3 million. Of this, 48.9% (\$16.7 million) is from private development donations, primarily related to the Flagstaff Mall development (\$9.9 million). Additional capital projects for business-type activities include the airport runway extension and the Wildcat Wastewater Treatment plant expansion, \$8.5 million and \$4.3 million respectively.

Analysis of Change in Net Assets

The City's overall net assets increased by \$47.6 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets
For the Years Ended June 30, 2007 and 2006 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006 (as restated)	2007	2006 as restated	2007	2006 (as restated)
Revenues						
Program Revenues:						
Charges for services	\$ 7,636	\$ 7,898	\$ 29,342	\$ 28,664	\$ 36,978	\$ 36,562
Operating grants and contributions	2,062	3,792	20	-	2,082	3,792
Capital grants and contributions	19,356	21,567	27,369	23,450	46,725	45,017
General Revenues:						
Property taxes	12,170	9,051	-	-	12,170	9,051
Sales taxes	32,335	30,015	-	-	32,335	30,015
State shared taxes	16,276	13,805	-	-	16,276	13,805
Investment earnings	4,109	2,385	1,547	1,182	5,656	3,567
Other	1,646	639	142	327	1,788	966
Total revenues	<u>95,590</u>	<u>89,152</u>	<u>58,420</u>	<u>53,623</u>	<u>154,010</u>	<u>142,775</u>
Expenses						
General government	9,035	7,459	-	-	9,035	7,459
Public safety	23,995	22,525	-	-	23,995	22,525
Public works	1,883	1,455	-	-	1,883	1,455
Economic and physical development	9,508	7,843	-	-	9,508	7,843
Culture and recreation	10,090	8,329	-	-	10,090	8,329
Highways and streets	14,564	12,043	-	-	14,564	12,043
Interest on long-term debt	3,090	2,167	-	-	3,090	2,167
Water and wastewater	-	-	19,945	18,452	19,945	18,452
Environmental	-	-	10,074	9,096	10,074	9,096
Airport	-	-	3,162	3,520	3,162	3,520
Stormwater	-	-	1,019	792	1,019	792
Total expenses	<u>72,165</u>	<u>61,821</u>	<u>34,200</u>	<u>31,860</u>	<u>106,365</u>	<u>93,681</u>
Increase in net assets before transfers	<u>23,425</u>	<u>27,331</u>	<u>24,220</u>	<u>21,763</u>	<u>47,645</u>	<u>49,094</u>
Transfers	(9,123)	(2,267)	9,123	2,267	-	-
Change in net assets	<u>14,302</u>	<u>25,064</u>	<u>33,343</u>	<u>24,030</u>	<u>47,645</u>	<u>49,094</u>
Net assets at beginning of year, as restated	<u>240,603</u>	<u>215,539</u>	<u>252,731</u>	<u>228,701</u>	<u>493,334</u>	<u>444,240</u>
Net assets at end of year	<u>\$ 254,905</u>	<u>\$ 240,603</u>	<u>\$ 286,074</u>	<u>\$ 252,731</u>	<u>\$ 540,979</u>	<u>\$ 493,334</u>

Governmental activities

Governmental activities increased the City's net assets by \$14.3 million, accounting for 30% of the total growth in the net assets of the City. The key factors for this increase are as follows:

- Combined operating grants, capital grants and contributions have decreased by 15.5% (\$3.9 million) due to decreased private development infrastructure contributions.
- Property tax increases are due to the creation of a new special assessment district, Aspen at Sawmill, generating \$2.5 million in special assessment tax revenue
- Sales tax revenues increased by 7.7% (\$2.3 million) at both local and state levels. State sales tax levels had decreased significantly in the post-9/11 environment and have finally surpassed revenue levels achieved five years ago. Bed, Board, and Booze (BBB) taxes continue to exceed prior levels after two years of declining revenues. Historically, City sales tax has maintained a constant level of growth and this trend continues.
- The City's portion of state shared taxes has grown by 17.9% (\$2.5 million) due to increased collections of state income tax. Additionally, the City's proportionate census share has grown slightly relative to the overall state population.
- Investment earnings are also normalizing with rates increasing to an average of over 4.4% and the City maintaining higher fund balances throughout the year.
- Expenses have increased primarily due to staffing increases and other compensation increases. The City authorized an additional 30 positions for the fiscal year. In addition, a 9% pay plan adjustment was implemented in addition to merit increases. Police and fire overtime also continue to escalate. Health insurance and retirement contribution rates also increased.

Business-type activities

Business type activity had net asset growth of \$33.3 million, accounting for 70% of the total growth in the net assets to the City. The key factors for this increase include:

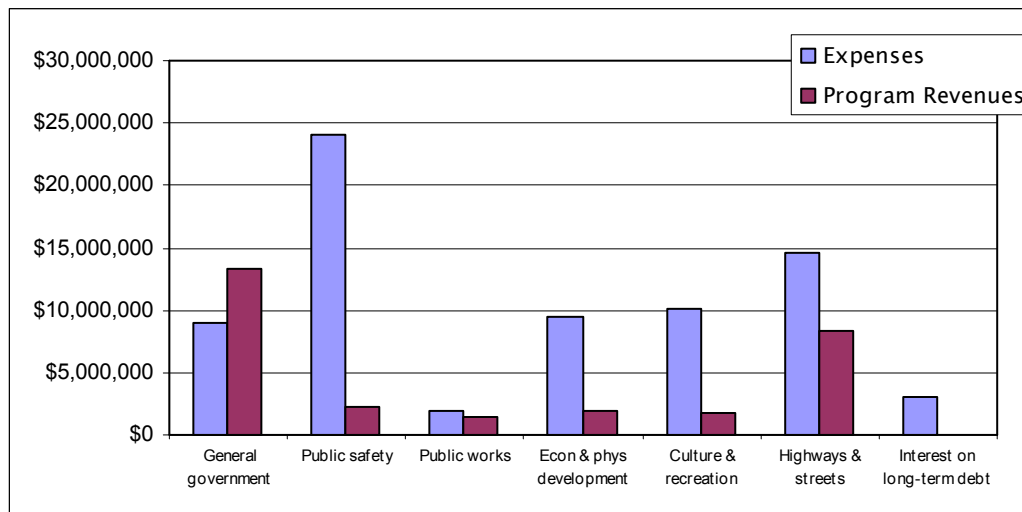
- Capital grants and contributions increased by 16.7% (\$3.9 million) due to grants received for the runway extension work at the airport.
- Expenses have increased primarily due to staffing increases and overall personnel cost increases. The City authorized an additional 12 positions for the fiscal year. In addition, a 9% pay plan adjustment was implemented in addition to merit increases. Health insurance and retirement contribution rates increased.

The following two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public safety is the largest function as measured by expense (33.3%), followed by Highways & streets (20.2%), Culture and recreation (14.0%), and Economic and physical development (13.2%).

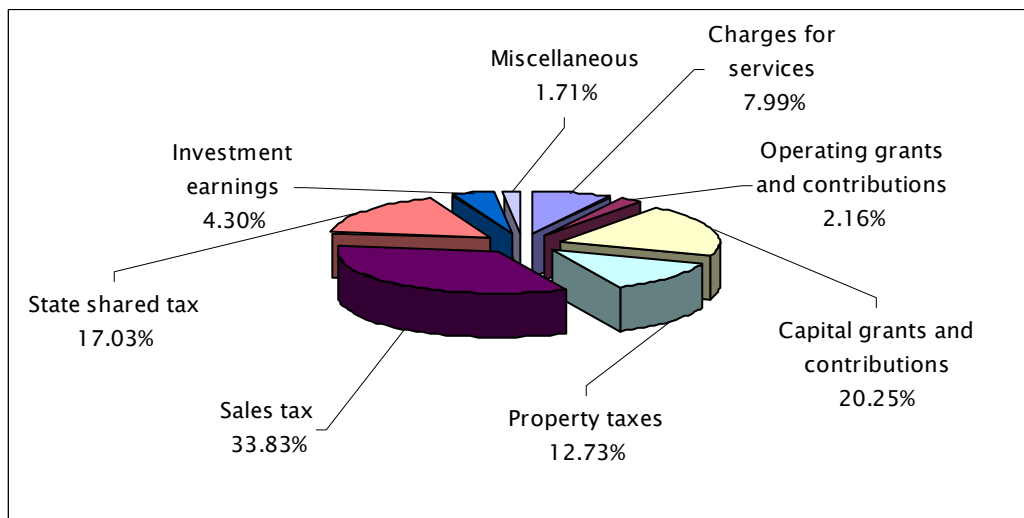
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (33.8%), followed by capital grants and contributions (20.3%), and state shared taxes (17%). This ranking of the revenue resources has remained the same since FY 2005.

For the most part increases in expenses from the previous year compared to the fiscal year ended June 30, 2007 exceeded inflation and normal growth expectations as the City addressed a number of community and organizational needs through enhanced staffing and program growth. Thirty full time equivalent positions were added to support the organizational infrastructure, to maintain or improve existing service levels, and to serve both the public and private sector permitting and inspection needs, and to support growing public safety needs.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



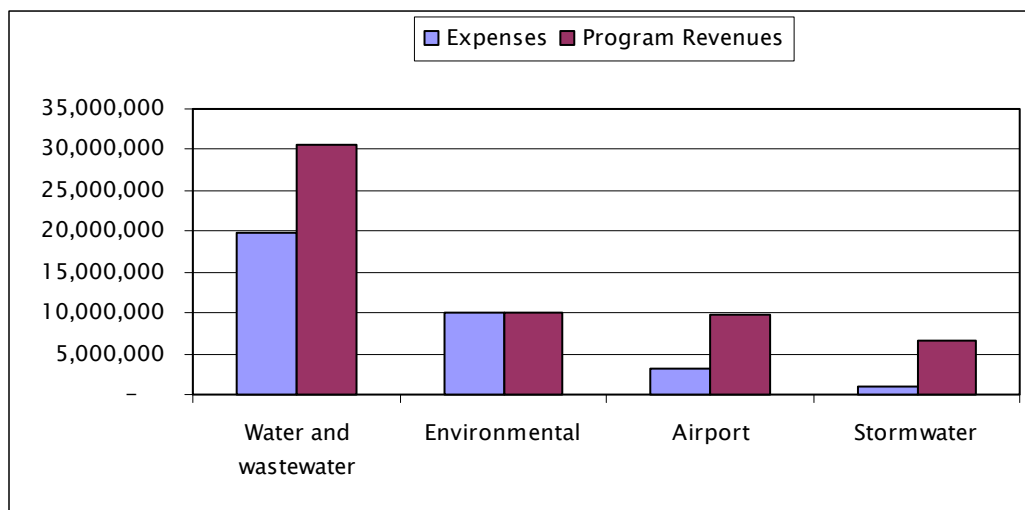
As shown in the following two charts, Water and Wastewater has expenses of \$19.9 million for the fiscal year, followed by Environmental Services with \$10.1 million, the Airport with \$3.2 million and Stormwater with \$1 million. For the fiscal year, program revenue exceeded expense for Water and wastewater, Airport and Stormwater. Environmental program revenue over expense was virtually flat. Water & wastewater and Environmental Services received the majority of their program revenues through charges for services (56.7% and 99.3%, respectively). The Airport and Stormwater funds receive the majority of support through Capital Grants and Contributions (88.5% and 83.9%, respectively). The Water and Wastewater fund receives 43.3% of support through grants and contributions. Charges for services provided the largest share of revenues (50.2%) for all of the business-type activities, followed by capital grants and contributions (46.8%). The proportionate share of revenue from charges for service (50.2%) and capital grants and contributions (46.8%) is similar to the prior year of 55 % and 45% respectively.

Stormwater expenses increased by 28.7% (\$0.2 million) in comparison with FY 2006. The Stormwater program is still relatively new to the City as it completed its fourth year and is now beginning to address drainage improvements needs within the City.

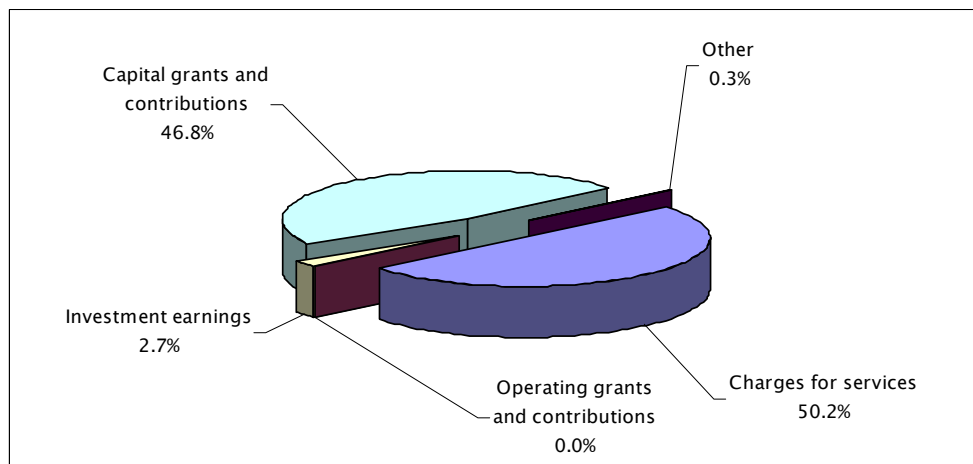
The Airport realized a 335.2% (\$7.5 million) revenue increase that is directly attributable to capital grants received for the runway extension.

Stormwater activities realized a 429.1% (\$5.3 million) revenue increase that is directly attributable to donations received for drainage improvements primarily associated with the Mall improvement project. In addition, \$7.4 million in drainage improvement infrastructure assets were transferred to the Stormwater fund. These assets had been captured as part of the historical infrastructure and had been previously considered to be part of governmental activities.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, Capital Project funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$94.9 million, an increase of \$13.1 million in comparison with the prior year, as restated. Approximately \$46.3 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$2.1 million), (2) for capital projects (\$46.2 million), (3) for inventory reserve (\$257,170), and perpetual care (\$88,962).

Revenues for governmental functions overall totaled \$89 million in the fiscal year ended June 30, 2007 which represents an increase of 15.9% or \$12.2 million from the fiscal year ended June 30, 2006 (as restated). Tax revenues which include the general sales tax, the transportation tax, BBB tax, general property tax, secondary property tax and franchise taxes increased by 7.3% (\$2.9 million). Sales tax growth was due to the continued economic rebound at both the state and city levels coupled with all-time high tourist levels. Intergovernmental revenues increased by 13.2% (\$2.2 million), primarily due to increased state shared income tax (\$1.3 million). Investment income increased by 75.2% (\$1.7 million) due to increased investment returns, now averaging 4.4%, and restricted cash and investments have grown significantly, increasing the overall pool of monies invested. Contributions have increased 2195.1% (\$2.9 million). The majority of this increase (\$2.7 million) is from contributions related to land sales associated with the development of the Auto Mall. Miscellaneous revenues have increased 573.0% (\$1.2 million). This is primarily related to the recognition of \$0.9 million in unrealized investment gains.

Expenditures for governmental functions, totaling \$93.6 million, increased by 5.1% (\$4.5 million) from the fiscal year ended June 30, 2006. The expenditure increase was driven by the increase in personnel and compensation costs previously discussed.

In the fiscal year ended June 30, 2007 expenditures for governmental functions exceeded revenues by approximately \$4.5 million. The higher level of expenditures is due to planned usage of fund balance for ongoing capital project expenditures of the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$29.9 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 66.6% and 69.4%, respectively, of General Fund expenditures.

The fund balance in the City's General Fund increased by \$2.4 million during the fiscal year as revenue growth outpaced expenditure growth at 11.7% and 5.6%, respectively. Overall, the General Fund's performance resulted in

revenues in excess of expenditures in the fiscal year ended June 30, 2007 of \$5.2 million. This is an increase of approximately \$2.9 million over the comparable figure from the prior year of \$2.3 million (as restated).

The Highway User Revenue Fund, Transportation Fund, and BBB Fund decreased by \$2.9 million, \$0.6 million and \$1.2 million, respectively, which represents a planned usage of fund balance for capital projects. The Capital Projects Bond Construction Fund increased by \$17.1 million due to the issuance of debt.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for Water and Wastewater, Environmental Services, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$5 million.

The total growth in net assets for the proprietary funds was \$33.3 million. All four business type activities had positive growth in their net assets for the fiscal year ended June 30, 2007. The increases are primarily driven by the private development donations (\$16.7 million), transfer of governmental activities infrastructure (\$9.1 million), and increased grant activity for the airport runway extension (\$7.5 million).

Fiduciary funds

The City maintains fiduciary funds for the assets of the Firemen's Pension Trust Fund. As of June 30, 2007, the net assets had increased by \$1,727.

Budget Highlights

The City's final budget differs from the original budget for certain divisions within the General fund even though the overall original budget remained the same. Council approved transfers from the contingency funds for the following divisions:

General fund contingency transfer:

\$160,000	City Manager's office – retirement payout
10,000	Sales tax – personnel costs
235,000	Development services – personnel costs
6,000	Public works administration – contractual obligations
2,000	General obligation debt – agent fees
<u>45,000</u>	Facility improvement – capital costs
<u>\$458,000</u>	

The General fund exceeded the final budgeted total revenues by 3.6% (\$1.8) million primarily due to state shared revenue growth, increased investment earnings, and the recognition of unrealized investment gains. Expenditures are under budget in every category due to not spending appropriation on several large budgeted projects, both capital and non-capital. These projects include but not limited to operating capital (\$1.2 million), sales tax software (\$0.5 million), redevelopment (\$1.2 million), incentive funds (\$0.9 million) and the conference center (\$1.5 million). Both transfers in and transfers out are less than budgeted as many transfers are based on the actual year end expenditure, most significant of which is the budgeted transfer from the General Fund to the Stormwater Fund of \$7 million for the Rio de Flag flood control project of which only \$1.1 million actually transferred at year end.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2007 amount to \$538.9 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 11% (\$53.5 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2007 and 2006 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006 as restated	2007	2006 as restated	2007	2006 as restated
Land	\$ 40,662	\$ 31,937	\$ 10,301	\$ 10,301	\$ 50,963	\$ 42,238
Buildings	25,765	25,412	49,164	50,930	74,929	76,342
Improvements	12,942	9,691	197,911	173,221	210,853	182,912
Machinery and equipment	11,689	8,778	6,119	9,498	17,808	18,276
Infrastructure	131,309	105,799	-	-	131,309	105,799
Construction in progress	21,256	46,716	31,861	13,153	53,117	59,869
Total	<u>\$ 243,623</u>	<u>\$ 228,333</u>	<u>\$ 295,356</u>	<u>\$ 257,103</u>	<u>\$ 538,979</u>	<u>\$ 485,436</u>

Major capital asset events during the current fiscal year included a 20.7% (\$8.7 million) increase in land which is the land associated with the 4th Street Overpass projects.. Improvements increased by 15.3% (\$27.9 million) which include Thorpe Park, Flagstaff Mall, and various residential subdivision improvements. Infrastructure increased by 34.1% (\$25.5 million) due to the 4th Street Overpass, Sunnyside improvements, and the Flagstaff Mall. Construction in progress decreased by 11.3% (\$6.7 million) primary due to the completion of the 4th Street project in governmental activities and increased in business-type activities Wildcat Wastewater Treatment Plant, Rio de Flag, and the Airport runway extension project.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 63–64 of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$141.9 million. Of this amount, \$44.5 million is general obligation bonds backed by the full faith and credit of the City, \$19.3 million is improvement district bonds, \$13.2 million is revenue bonds, \$24.3 million is for the Municipal Facility Corporation, and \$40.5 million are outstanding leases or loans for the airport, water/wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2007 and 2006 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 31,230	\$ 32,875	\$ 13,310	\$ 16,294	\$ 44,540	\$ 49,169
Special assessment bonds	19,339	340	–	–	19,339	340
Revenue bonds	7,725	9,665	5,496	5,770	13,221	15,435
Other debt	24,315	25,610	–	–	24,315	25,610
Lease/Loans	3,097	3,455	37,439	5,323	40,536	8,778
Total debt payable	<u>\$ 85,706</u>	<u>\$ 71,945</u>	<u>\$ 56,245</u>	<u>\$ 27,387</u>	<u>\$ 141,951</u>	<u>\$ 99,332</u>

During fiscal year 2007, the City's total bonded debt increased by approximately \$42.6 million. The City issued \$19.1 million in new special assessment debt to benefit the Aspen Place at Sawmill project. In addition lease/loan borrowing increased to accommodate the purchase of water rights (\$7.9 million), a loan for the Wildcat Wastewater Treatment Plant (\$23.1 million), and the APSES energy improvements (\$2.0 million). The debt retirement exceeded the debt obligation in all other bond categories.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2007 is \$44.4 million in the 6% category and \$106.2 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Schedule 15 in the statistical section of this report.

During the year, the City maintained the following bond ratings:

City of Flagstaff Bonded Debt Ratings
As of June 30, 2007

	Moody's Investors Service	Standard & Poor's
General Obligation	Aa3	AA–
Municipal Facilities Corporation	A1	A+
Aspen Place Improvement District	A1	A+

Additional information on the City's long-term debt can be found in Section IV F on pages 67–75 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2007/2008 budget preparation was influenced by the following factors:

- Commercial development including enhancements to the Flagstaff Mall, the inception of an automall, the development of the conference center at Northern Arizona University, and the addition of a Super Walmart will permanently increase sales tax revenues.
- Other revenue resources are anticipated to exhibit limited growth
- Economic growth as related to recruitment, retention, and the expansion of air service will be critical to future of our community
- Providing affordable housing, especially for the workforce, is essential
- Implementation of a Sustainability Program is underway to evaluate strategies for energy efficiency for commercial and transportation modalities and to assess waste reduction and recycling efforts

- The cost of providing retirement and health benefits continue to escalate beyond available budgeted resources. The City continues to look for ways to manage the entire employee compensation package.
- This goal is balanced with the need to minimize take home impacts to the employee who also experiences increased deductions due to benefit changes.
- The addition of positions that meet the current and future needs as defined by Council
- The City responded to the economic downturn during the first half of this decade by reducing and/or eliminating amounts spent on facility maintenance. The City is restoring those funds and working toward long term plans to assure long facility life
- Maintenance of level expenditures while minimizing the impact to health and/or safety services
- Assessment and funding of long range capital needs and their associated operational impacts

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff
 Management Services Department
 Finance and Budget Division
 211 W. Aspen
 Flagstaff, AZ 86001

Main and TDD (928) 774-5281
 Arizona Relay 7-1-1



CITY OF FLAGSTAFF, ARIZONA

Statement of Net Assets

June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,165,508	\$ 18,454,497	\$ 27,620,005
Cash with fiscal agents	6,416,809	3,615,606	10,032,415
Investments	47,987,036	39,000	48,026,036
Receivables, net	12,772,249	25,315,542	38,087,791
Internal balance	385,990	(385,990)	-
Inventory	308,497	182,980	491,477
Deferred bond issuance costs, net	598,563	372,800	971,363
Restricted cash and investments	47,876,369	11,430,631	59,307,000
Restricted receivables	-	8,170,891	8,170,891
Capital assets:			
Non-depreciable	61,918,254	42,161,542	104,079,796
Depreciable, net	181,705,114	253,194,534	434,899,648
Total assets	369,134,389	362,552,033	731,686,422
LIABILITIES			
Accounts payable	12,303,551	4,897,476	17,201,027
Accrued payroll	1,518,716	320,938	1,839,654
Interest payable	1,538,039	805,049	2,343,088
Unearned revenue	649,999	272,515	922,514
Deposits payable	1,958,326	488,265	2,446,591
Matured bonds and lease payable	4,880,000	4,026,356	8,906,356
Unamortized bond premium	1,108,863	88,360	1,197,223
Liabilities payable from restricted assets	1,506,421	7,182,242	8,688,663
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,304,794	295,769	1,600,563
Special assessment bonds	82,000	-	82,000
Bonds, notes and leases payable	4,964,398	4,831,281	9,795,679
Due in more than one year:			
Compensated absences	1,649,034	269,677	1,918,711
Landfill closure and postclosure care costs	-	1,586,765	1,586,765
Arbitrage rebate	104,730	-	104,730
Special assessment bonds	19,257,000	-	19,257,000
Bonds, notes and leases payable	61,402,932	51,413,534	112,816,466
Total liabilities	114,228,803	76,478,227	190,707,030
NET ASSETS			
Invested in capital assets, net of related debt	204,594,974	264,381,730	468,976,704
Restricted for:			
Capital projects	11,621,661	2,424,615	14,046,276
Debt service	2,078,745	-	2,078,745
Perpetual care:			
Expendable	6,567	-	6,567
Nonexpendable	88,962	-	88,962
Unrestricted	36,514,677	19,267,461	55,782,138
Total net assets	\$ 254,905,586	\$ 286,073,806	\$ 540,979,392

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Activities
Year Ended June 30, 2007

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 9,035,268	\$ 4,171,853	\$ 108,223	\$ 9,019,930
Public safety	23,994,991	704,800	781,976	815,820
Public Works	1,882,489	1,455,461	-	-
Economic and physical development	9,508,406	562,135	799,433	565,299
Culture and recreation	10,089,469	742,088	372,697	677,006
Highways and streets	14,557,140	-	-	8,278,216
Interest on long-term debt	3,090,140	-	-	-
Total governmental activities	<u>72,157,903</u>	<u>7,636,337</u>	<u>2,062,329</u>	<u>19,356,271</u>
Business-type activities:				
Water and wastewater	19,945,366	17,337,916	-	13,238,444
Environmental	10,073,853	9,839,486	19,500	54,653
Airport	3,162,391	1,122,274	-	8,632,269
Stormwater	1,019,248	1,042,701	-	5,443,692
Total business-type activities	<u>34,200,858</u>	<u>29,342,377</u>	<u>19,500</u>	<u>27,369,058</u>
Total primary government	<u>\$ 106,358,761</u>	<u>\$ 36,978,714</u>	<u>\$ 2,081,829</u>	<u>\$ 46,725,329</u>

General revenues:

Property taxes, levied for general purposes
Property tax, levied for debt service
Property tax, levied for special district
Sales taxes
State shared sales taxes – unrestricted
Investment earnings
Miscellaneous
Gain on sale of capital assets
Contributions to permanent fund
Transfers in (out)
Total general revenues, contributions and transfers
Change in net assets
Net assets – beginning, as restated (see note II. C.)
Net assets – ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ 4,264,738	\$ -	\$ 4,264,738
(21,692,395)	-	(21,692,395)
(427,028)	-	(427,028)
(7,581,539)	-	(7,581,539)
(8,297,678)	-	(8,297,678)
(6,278,924)	-	(6,278,924)
(3,090,140)	-	(3,090,140)
<u>(43,102,966)</u>	<u>-</u>	<u>(43,102,966)</u>
-	10,630,994	10,630,994
-	(160,214)	(160,214)
-	6,592,152	6,592,152
-	5,467,145	5,467,145
<u>-</u>	<u>22,530,077</u>	<u>22,530,077</u>
<u>\$ (43,102,966)</u>	<u>\$ 22,530,077</u>	<u>\$ (20,572,889)</u>
4,463,732	-	4,463,732
5,202,701	-	5,202,701
2,502,814	-	2,502,814
32,334,785	-	32,334,785
16,276,354	-	16,276,354
4,108,861	1,546,893	5,655,754
1,377,552	110,835	1,488,387
242,167	31,354	273,521
19,460	-	19,460
(9,123,196)	9,123,196	-
<u>57,405,230</u>	<u>10,812,278</u>	<u>68,217,508</u>
14,302,264	33,342,355	47,644,619
240,603,322	252,731,451	493,334,773
<u>\$ 254,905,586</u>	<u>\$ 286,073,806</u>	<u>\$ 540,979,392</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Highway User Revenue Fund	Transportation Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 30,087,140	\$ 8,858,470	\$ 521,240
Cash with fiscal agents	377,099	2,174,793	1,482,300
Accounts receivable, net	3,658,823	3,461,555	1,276,053
Interest receivable	259,332	78,959	67,319
Intergovernmental receivables	1,512,669	-	689,160
Interfund receivable	1,102,000	-	-
Bond proceeds receivable	116,916	-	-
Special assessments receivable	-	-	-
Inventory	256,762	-	-
Restricted cash and cash equivalents	1,003,474	-	609
Restricted investments	-	-	-
Total assets	<u>\$ 38,374,215</u>	<u>\$ 14,573,777</u>	<u>\$ 4,036,681</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 2,584,856	\$ 5,428,840	\$ 1,038,901
Accrued payroll and compensated absences	1,372,886	60,574	-
Current bonds payable	295,000	1,940,000	1,000,000
Interest payable	82,099	234,793	482,300
Interfund payable	-	-	-
Deferred revenue	143,837	-	-
Unearned revenue	649,999	-	-
Guaranty and other deposits	1,958,326	-	-
Liabilities payable from restricted assets	66,741	-	-
Total liabilities	<u>7,153,744</u>	<u>7,664,207</u>	<u>2,521,201</u>
Fund balances:			
Reserved for:			
Debt service	-	-	609
Capital projects	1,003,474	-	-
Inventory	256,762	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	29,960,235	-	-
Special revenue funds	-	6,909,570	1,514,871
Permanent fund	-	-	-
Total fund balances	<u>31,220,471</u>	<u>6,909,570</u>	<u>1,515,480</u>
Total liabilities and fund balances	<u>\$ 38,374,215</u>	<u>\$ 14,573,777</u>	<u>\$ 4,036,681</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 4,714,536	\$ 737,160	\$ 6,927,508	\$ 51,846,054
-	-	2,382,617	6,416,809
577,330	-	97,397	9,071,158
35,991	32,709	66,959	541,269
21,084	-	549,910	2,772,823
-	-	-	1,102,000
-	-	-	116,916
-	-	1,007	1,007
51,735	-	-	308,497
-	21,043,910	88,962	22,136,955
-	25,739,414	-	25,739,414
<u>\$ 5,400,676</u>	<u>\$ 47,553,193</u>	<u>\$ 10,114,360</u>	<u>\$ 120,052,902</u>

\$ 1,029,548	\$ 1,571,049	\$ 170,410	\$ 11,823,604
27,632	-	78,249	1,539,341
-	-	1,645,000	4,880,000
-	-	738,847	1,538,039
-	800,000	302,000	1,102,000
-	-	1,007	144,844
-	-	-	649,999
-	-	-	1,958,326
-	-	1,439,680	1,506,421
<u>1,057,180</u>	<u>2,371,049</u>	<u>4,375,193</u>	<u>25,142,574</u>

-	-	2,078,745	2,079,354
-	45,182,144	-	46,185,618
-	-	-	256,762
-	-	88,962	88,962
-	-	-	29,960,235
4,343,496	-	3,564,893	16,332,830
-	-	6,567	6,567
<u>4,343,496</u>	<u>45,182,144</u>	<u>5,739,167</u>	<u>94,910,328</u>
<u>\$ 5,400,676</u>	<u>\$ 47,553,193</u>	<u>\$ 10,114,360</u>	<u>\$ 120,052,902</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Fund balances – total governmental funds balance sheet \$ 94,910,328

Amounts reported for governmental activities in the statements of net assets are different because (also see note 2):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	372,142,380	
Less: accumulated depreciation	(121,127,435)	
Transfer of capital assets to business-type activities	(7,391,577)	243,623,368

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Deferred bond issue costs	598,563	
Fines and forfeitures	142,197	740,760

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	85,706,330	
Bond premium	1,108,863	
Arbitrage rebate	104,730	
Compensated absences	2,933,199	(89,853,122)

Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

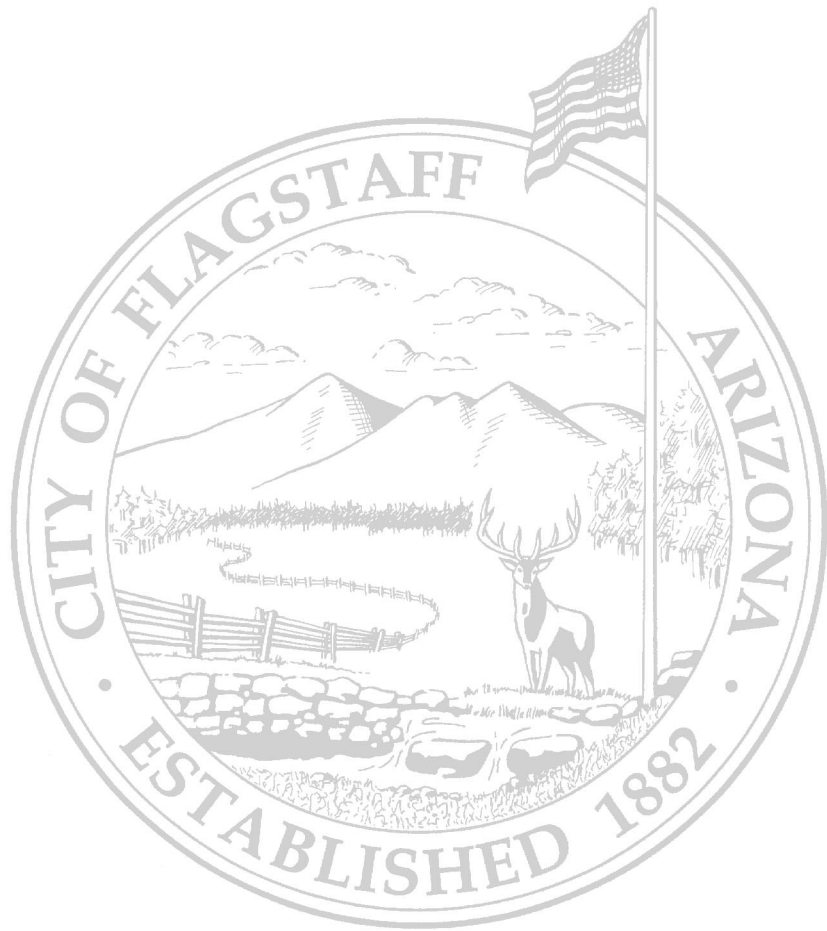
Special assessments	1,007	
Property tax	143,837	144,844

The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		5,339,408

Net assets of governmental activities – statement of net assets	\$ 254,905,586

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Highway User Revenue Fund	Transportation Fund
REVENUES:			
Taxes	\$ 22,362,043	\$ -	\$ 9,433,716
Intergovernmental	16,276,354	-	-
Grants and entitlements	1,739,949	8,278,216	-
Charges for services	2,068,970	-	-
Special assessments	-	-	-
Licenses and permits	2,438,599	-	-
Fines and forfeitures	1,290,667	-	-
Rents	1,455,461	-	-
Investment earnings	1,263,235	352,712	316,110
Contributions	2,500	-	-
Miscellaneous	1,269,942	49,836	-
Total revenues	<u>50,167,720</u>	<u>8,680,764</u>	<u>9,749,826</u>
EXPENDITURES:			
Current:			
General governmental	8,194,214	-	-
Public safety	22,994,522	-	-
Public works	1,615,049	-	-
Economic and physical development	5,091,181	-	-
Culture and recreation	4,189,166	-	-
Highways and streets	-	5,330,199	2,528,805
Debt service:			
Principal retirement	652,222	1,940,000	1,000,000
Interest and other charges	283,660	473,053	970,147
Capital outlay	1,948,083	8,531,258	2,386,447
Total expenditures	<u>44,968,097</u>	<u>16,274,510</u>	<u>6,885,399</u>
Excess (deficiency) of revenues over expenditures	<u>5,199,623</u>	<u>(7,593,746)</u>	<u>2,864,427</u>
OTHER FINANCING SOURCES (USES):			
Issuance of debt	-	-	-
Bond premium	-	-	-
Sale of capital assets	60,307	173,919	-
Transfers in	3,873,247	4,634,466	-
Transfers out	(6,719,751)	(85,401)	(3,466,413)
Total other financing sources (uses)	<u>(2,786,197)</u>	<u>4,722,984</u>	<u>(3,466,413)</u>
Net change in fund balances	<u>2,413,426</u>	<u>(2,870,762)</u>	<u>(601,986)</u>
Fund balances, beginning of year, as restated (see note II.C.)	<u>28,807,045</u>	<u>9,780,332</u>	<u>2,117,466</u>
Fund balances, end of year	<u>\$ 31,220,471</u>	<u>\$ 6,909,570</u>	<u>\$ 1,515,480</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 4,992,480	\$ -	\$ 5,187,895	\$ 41,976,134
-	-	2,502,814	18,779,168
668,160	236,728	1,262,353	12,185,406
125,319	-	411,591	2,605,880
-	-	2,927	2,927
-	-	-	2,438,599
-	-	-	1,290,667
25,225	-	-	1,480,686
182,431	1,461,512	344,473	3,920,473
-	2,721,674	257,808	2,981,982
27,024	-	30,750	1,377,552
<u>6,020,639</u>	<u>4,419,914</u>	<u>10,000,611</u>	<u>89,039,474</u>
-	-	-	8,194,214
-	-	-	22,994,522
-	-	-	1,615,049
2,756,130	-	1,497,365	9,344,676
459,557	-	3,999,905	8,648,628
-	-	-	7,859,004
-	-	1,721,000	5,313,222
-	299	1,483,720	3,210,879
<u>5,194,445</u>	<u>7,758,329</u>	<u>584,641</u>	<u>26,403,203</u>
<u>8,410,132</u>	<u>7,758,628</u>	<u>9,286,631</u>	<u>93,583,397</u>
<u>(2,389,493)</u>	<u>(3,338,714)</u>	<u>713,980</u>	<u>(4,543,923)</u>
-	19,075,000	-	19,075,000
-	46,707	-	46,707
46	-	18,057	252,329
2,987,000	1,338,000	4,924,134	17,756,847
<u>(1,823,792)</u>	<u>-</u>	<u>(7,393,109)</u>	<u>(19,488,466)</u>
<u>1,163,254</u>	<u>20,459,707</u>	<u>(2,450,918)</u>	<u>17,642,417</u>
<u>(1,226,239)</u>	<u>17,120,993</u>	<u>(1,736,938)</u>	<u>13,098,494</u>
<u>5,569,735</u>	<u>28,061,151</u>	<u>7,476,105</u>	<u>81,811,834</u>
<u>\$ 4,343,496</u>	<u>\$ 45,182,144</u>	<u>\$ 5,739,167</u>	<u>\$ 94,910,328</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances – total governmental funds \$ 13,098,494

Amounts reported for governmental activities in the statements of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	26,403,203	
Less current year depreciation	<u>(9,974,778)</u>	16,428,425

Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:

Capital-related debt issued	(19,075,000)	
Premium on debt issued	(46,707)	
Donated capital	6,270,672	
Compensated absences	(331,583)	
Principal payments on debt	5,313,222	
Arbitrage rebate	(104,730)	
Bond premium	<u>120,739</u>	(7,853,387)

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities.

Issuance costs	<u>(69,998)</u>	(69,998)
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The sale of capital assets in the governmental funds reflect proceeds. However, in the statement of activities the sale of capital assets reflect the net gain (loss).

Sale of capital assets	(10,162)	
Transfer of capital assets to business-type activities	<u>(7,391,577)</u>	(7,401,739)

(continued)

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Special assessments	(2,927)	
Property tax	25,084	
Fines and forfeitures	<u>(179,495)</u>	(157,338)

Internal service funds are used by management to charge the costs of certain activities, such as the City's self-insurance program to individual funds. The following activities of the internal service fund is reported with governmental activities.

Operating loss	69,419	
Investment income	<u>188,388</u>	257,807

Change in net assets of governmental activities – statement of activities		<u><u>\$ 14,302,264</u></u>
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The notes to the financial statements are an integral part of this statement

(concluded)

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 21,948,476	\$ 21,948,476	\$ 22,362,043	\$ 413,567
Intergovernmental	15,922,828	15,922,828	16,276,354	353,526
Grants and entitlements	2,593,701	2,593,701	1,739,949	(853,752)
Charges for services	2,041,860	2,041,860	2,068,970	27,110
Licenses and permits	2,587,783	2,587,783	2,438,599	(149,184)
Fines and forfeitures	1,165,533	1,165,533	1,290,667	125,134
Rents	1,358,275	1,358,275	1,455,461	97,186
Investment earnings	511,798	511,798	1,263,235	751,437
Contributions	-	-	2,500	2,500
Miscellaneous	268,059	268,059	1,269,942	1,001,883
Total revenues	<u>48,398,313</u>	<u>48,398,313</u>	<u>50,167,720</u>	<u>1,769,407</u>
EXPENDITURES:				
Current:				
General administration	6,141,963	6,301,963	5,337,674	964,289
Management Services	4,098,404	4,108,404	3,739,717	368,687
Community development	4,912,169	5,147,169	5,031,107	116,062
Fire	10,281,902	10,281,902	9,047,537	1,234,365
Police	15,127,011	15,127,011	14,530,737	596,274
Public works	8,434,929	8,440,929	7,107,345	1,333,584
Utilities	14,932	14,932	14,932	-
Non-departmental	4,475,833	4,522,833	159,048	4,363,785
Contingency	500,000	42,000	-	42,000
Total expenditures	<u>53,987,143</u>	<u>53,987,143</u>	<u>44,968,097</u>	<u>9,019,046</u>
Excess (deficiency) of revenues over expenditures	<u>(5,588,830)</u>	<u>(5,588,830)</u>	<u>5,199,623</u>	<u>10,788,453</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	5,797	5,797	60,307	54,510
Transfers in	5,293,765	5,293,765	3,873,247	(1,420,518)
Transfers out	(12,964,340)	(12,964,340)	(6,719,751)	6,244,589
Total other financing sources (uses)	<u>(7,664,778)</u>	<u>(7,664,778)</u>	<u>(2,786,197)</u>	<u>4,878,581</u>
Net change in fund balances	<u>(13,253,608)</u>	<u>(13,253,608)</u>	<u>2,413,426</u>	<u>15,667,034</u>
Budgetary fund balances, beginning of year	<u>24,344,560</u>	<u>24,344,560</u>	<u>24,344,560</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 11,090,952</u>	<u>\$ 11,090,952</u>	<u>\$ 26,757,986</u>	<u>\$ 15,667,034</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 2,413,426	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(833,431)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			-	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,579,995</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Highway User Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 8,096,836	\$ 8,096,836	\$ 8,278,216	\$ 181,380
Investment earnings	194,000	194,000	352,712	158,712
Miscellaneous	3,820,000	3,820,000	49,836	(3,770,164)
Total revenues	<u>12,110,836</u>	<u>12,110,836</u>	<u>8,680,764</u>	<u>(3,430,072)</u>
EXPENDITURES:				
Current:				
General administration	230,386	230,386	230,386	–
Management Services	205,898	205,898	205,898	–
Community development	1,884,825	1,884,825	1,032,099	852,726
Public works	22,906,615	22,906,615	14,552,148	8,354,467
Utilities	3,503	3,503	3,503	–
Non-departmental	250,476	250,476	250,476	–
Contingency	100,000	98,000	–	98,000
Total expenditures	<u>25,581,703</u>	<u>25,579,703</u>	<u>16,274,510</u>	<u>9,305,193</u>
Excess (deficiency) of revenues over expenditures	<u>(13,470,867)</u>	<u>(13,468,867)</u>	<u>(7,593,746)</u>	<u>5,875,121</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	–	–	173,919	173,919
Transfers in	9,200,020	9,200,020	4,634,466	(4,565,554)
Transfers out	(85,401)	(85,401)	(85,401)	–
Total other financing sources (uses)	<u>9,114,619</u>	<u>9,114,619</u>	<u>4,722,984</u>	<u>(4,391,635)</u>
Net change in fund balances	<u>(4,356,248)</u>	<u>(4,354,248)</u>	<u>(2,870,762)</u>	<u>1,483,486</u>
Budgetary fund balances, beginning of year	<u>7,751,055</u>	<u>7,751,055</u>	<u>7,751,055</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 3,394,807</u>	<u>\$ 3,396,807</u>	<u>\$ 4,880,293</u>	<u>\$ 1,483,486</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (2,870,762)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(36,871)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (2,907,633)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 8,746,589	\$ 8,746,589	\$ 9,433,716	\$ 687,127
Investment earnings	211,000	211,000	316,110	105,110
Total revenues	<u>8,957,589</u>	<u>8,957,589</u>	<u>9,749,826</u>	<u>792,237</u>
EXPENDITURES:				
Current:				
Community development	1,971,940	1,971,940	4,357,068	(2,385,128)
Non-departmental	2,762,433	2,762,433	2,528,331	234,102
Total expenditures	<u>4,734,373</u>	<u>4,734,373</u>	<u>6,885,399</u>	<u>(2,151,026)</u>
Excess (deficiency) of revenues over expenditures	<u>4,223,216</u>	<u>4,223,216</u>	<u>2,864,427</u>	<u>(1,358,789)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(8,034,297)	(8,034,297)	(3,466,413)	4,567,884
Total other financing sources (uses)	<u>(8,034,297)</u>	<u>(8,034,297)</u>	<u>(3,466,413)</u>	<u>4,567,884</u>
Net change in fund balances	<u>(3,811,081)</u>	<u>(3,811,081)</u>	<u>(601,986)</u>	<u>3,209,095</u>
Budgetary fund balances, beginning of year	<u>8,459,852</u>	<u>8,459,852</u>	<u>8,459,852</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 4,648,771</u>	<u>\$ 4,648,771</u>	<u>\$ 7,857,866</u>	<u>\$ 3,209,095</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (601,986)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(101,646)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (703,632)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 4,657,883	\$ 4,657,883	\$ 4,992,480	\$ 334,597
Grants and entitlements	4,867,744	4,867,744	668,160	(4,199,584)
Charges for services	42,000	42,000	125,319	83,319
Rents	-	-	25,225	25,225
Investment earnings	120,114	120,114	182,431	62,317
Miscellaneous	25,000	25,000	27,024	2,024
Total revenues	<u>9,712,741</u>	<u>9,712,741</u>	<u>6,020,639</u>	<u>(3,692,102)</u>
EXPENDITURES:				
Current:				
General administration	2,394,315	2,394,315	1,962,243	432,072
Community development	9,592,128	9,602,128	1,491,119	8,111,009
Public works	4,809,145	4,809,145	4,410,614	398,531
Non-departmental	621,400	621,400	546,156	75,244
Contingency	95,000	85,000	-	85,000
Total expenditures	<u>17,511,988</u>	<u>17,511,988</u>	<u>8,410,132</u>	<u>9,101,856</u>
Excess (deficiency) of revenues over expenditures	<u>(7,799,247)</u>	<u>(7,799,247)</u>	<u>(2,389,493)</u>	<u>5,409,754</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	1,200,000	1,200,000	-	(1,200,000)
Sale of capital assets	-	-	46	46
Transfers in	3,509,936	3,509,936	2,987,000	(522,936)
Transfers out	(1,870,277)	(1,870,277)	(1,823,792)	46,485
Total other financing sources (uses)	<u>2,839,659</u>	<u>2,839,659</u>	<u>1,163,254</u>	<u>(1,676,405)</u>
Net change in fund balances	<u>(4,959,588)</u>	<u>(4,959,588)</u>	<u>(1,226,239)</u>	<u>3,733,349</u>
Budgetary fund balances, beginning of year	<u>5,440,471</u>	<u>5,440,471</u>	<u>5,440,471</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 480,883</u>	<u>\$ 480,883</u>	<u>\$ 4,214,232</u>	<u>\$ 3,733,349</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (1,226,239)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(19,018)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (1,245,257)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and investments	\$ 11,704,418	\$ 6,074,718
Cash with fiscal agents	3,345,433	–
Receivables, net	17,658,516	987,504
Interfund receivable	6,800,000	–
Inventory	182,980	–
Total current assets	39,691,347	7,062,222
Noncurrent assets:		
Restricted cash and cash equivalents	3,488,581	7,117,987
Restricted receivables	8,100,000	64,254
Deferred bond issuance costs, net	372,800	–
Capital assets, non-depreciable	20,818,467	2,395,943
Capital assets, depreciable, net	203,227,038	5,671,944
Total non-current assets	236,006,886	15,250,128
Total assets	275,698,233	22,312,350
LIABILITIES		
Current liabilities:		
Accounts payable	3,827,875	140,619
Accrued payroll and compensated absences	398,216	172,310
Unearned revenue	127,371	–
Unamortized bond premium	83,502	–
Interfund payable	–	–
Lease and notes payable	1,229,752	–
Liabilities payable from restricted assets	3,331,480	7,182,242
Deposits payable	422,945	29,547
Total current liabilities	9,421,141	7,524,718
Noncurrent liabilities:		
Compensated absences	172,671	82,217
Landfill closure and postclosure care costs	–	1,586,765
Capital lease payable	1,749,875	–
Bonds and notes payable	50,845,400	–
Total noncurrent liabilities	52,767,946	1,668,982
Total liabilities	62,189,087	9,193,700
NET ASSETS		
Invested in capital assets, net of related debt	196,725,557	8,067,887
Restricted: Capital projects	1,593,915	–
Unrestricted	15,189,674	5,050,763
Total net assets	\$ 213,509,146	\$ 13,118,650

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 156,548	\$ 557,813	\$ 18,493,497	\$ 5,306,490
270,173	–	3,615,606	–
6,568,064	101,458	25,315,542	126,879
–	–	6,800,000	94,897
–	–	182,980	–
6,994,785	659,271	54,407,625	5,528,266
824,063	–	11,430,631	–
6,637	–	8,170,891	–
–	–	372,800	–
10,203,568	8,743,564	42,161,542	–
29,742,811	14,552,741	253,194,534	–
40,777,079	23,296,305	315,330,398	–
47,771,864	23,955,576	369,738,023	5,528,266
832,613	96,369	4,897,476	479,947
27,355	18,826	616,707	4
145,144	–	272,515	–
4,858	–	88,360	–
6,894,897	–	6,894,897	–
122,697	–	1,352,449	–
270,173	–	10,783,895	–
35,773	–	488,265	–
8,333,510	115,195	25,394,564	479,951
8,074	6,715	269,677	–
–	–	1,586,765	–
2,477,230	–	4,227,105	–
1,049,613	–	51,895,013	–
3,534,917	6,715	57,978,560	–
11,868,427	121,910	83,373,124	479,951
36,291,981	23,296,305	264,381,730	–
830,700	–	2,424,615	–
(1,219,244)	537,361	19,558,554	5,048,315
\$ 35,903,437	\$ 23,833,666	\$ 286,364,899	\$ 5,048,315

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities

Net assets of business-type activities

(291,093)

\$ 286,073,806

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007

	<u>Business-type Activities – Enterprise Funds</u>	
	<u>Water and Wastewater Fund</u>	<u>Environmental Services Fund</u>
OPERATING REVENUES:		
Charges for services	\$ 17,330,485	\$ 9,816,073
Miscellaneous	7,431	23,413
Total operating revenues	<u>17,337,916</u>	<u>9,839,486</u>
OPERATING EXPENSES:		
Personal services	5,047,212	3,480,015
Contractual services, materials and supplies	7,845,583	5,858,791
Insurance claims and expenses	-	-
Depreciation and amortization	5,839,536	745,169
Total operating expenses	<u>18,732,331</u>	<u>10,083,975</u>
Operating income (loss)	<u>(1,394,415)</u>	<u>(244,489)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	897,255	601,814
Grants and entitlements	59,123	74,153
Gain on sale of capital asset	30,801	553
Passenger facility charges	-	-
Interest expense	(1,231,845)	-
Total non-operating revenues (expenses)	<u>(244,666)</u>	<u>676,520</u>
Income (loss) before capital contributions and transfers	<u>(1,639,081)</u>	<u>432,031</u>
Capital contributions	13,191,469	-
Transfers in	2,413,053	32,500
Transfers out	(2,570,847)	(19,488)
Change in net assets	<u>11,394,594</u>	<u>445,043</u>
Total net assets, beginning of year	<u>202,114,552</u>	<u>12,673,607</u>
Total net assets, end of year	<u><u>\$ 213,509,146</u></u>	<u><u>\$ 13,118,650</u></u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,114,721	\$ 1,042,701	\$ 29,303,980	\$ 6,931,160
7,553	-	38,397	124,500
1,122,274	1,042,701	29,342,377	7,055,660
606,760	507,317	9,641,304	-
543,575	256,114	14,504,063	-
-	-	-	6,953,318
1,799,861	256,840	8,641,406	-
2,950,196	1,020,271	32,786,773	6,953,318
(1,827,922)	22,430	(3,444,396)	102,342
36,026	11,798	1,546,893	188,388
8,632,269	-	8,765,545	-
-	-	31,354	-
110,835	-	110,835	-
(215,163)	-	(1,447,008)	-
8,563,967	11,798	9,007,619	188,388
6,736,045	34,228	5,563,223	290,730
-	12,823,121	26,014,590	-
898,429	1,146,539	4,490,521	-
(33,567)	(135,000)	(2,758,902)	-
7,600,907	13,868,888	33,309,432	290,730
28,302,530	9,964,778		4,757,585
\$ 35,903,437	\$ 23,833,666		\$ 5,048,315

Some amounts reported for business-type activities on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

Change in net assets of business-type activities

32,923
\$ 33,342,355

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 16,661,244	\$ 9,719,588
Interfund services provided	252,023	49,422
Other receipts	7,431	23,413
Payments to suppliers	(4,292,986)	(5,170,154)
Interfund services used	(24,746)	(2,145)
Payments to employees	(4,911,353)	(3,425,995)
Net cash provided (used) by operating activities	7,691,613	1,194,129
Cash flows from noncapital financing activities:		
Transfer from other funds	2,413,053	32,500
Transfer to other funds	(2,570,847)	(19,488)
Interfund loans paid	(6,298,000)	-
Interfund loans received	-	-
Net cash provided (used) by noncapital financing activities	(6,455,794)	13,012
Cash flows from capital and related financing activities:		
Receipts from grantors	38,150	12,657
Capital Contributions	1,951,179	-
Acquisition and construction of capital assets	(9,871,185)	(702,785)
Principal payments on capital debt	(2,587,179)	-
Interest paid on capital debt	(1,194,699)	-
Proceeds from capital debt	9,900,000	-
Proceeds from sales of capital assets	30,801	8,928
Net cash provided (used) by capital and related financing activities	(1,732,933)	(681,200)
Cash flows from investing activities:		
Interest received on investments	848,304	573,229
Sale of investments	11,000	-
Net cash provided (used) by investing activities	859,304	573,229
Net increase (decrease) in cash and cash equivalents	362,190	1,099,170
Cash and cash equivalents at beginning of year, as restated	18,137,242	12,093,535
Cash and cash equivalents at end of year	\$ 18,499,432	\$ 13,192,705
Classified as:		
Cash and investments	\$ 11,704,418	\$ 6,074,718
Restricted cash with fiscal agents	3,345,433	-
Restricted cash and cash equivalents	3,488,581	7,117,987
Less: non-cash equivalents	(39,000)	-
Totals	\$ 18,499,432	\$ 13,192,705

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,068,879	\$ 964,693	\$ 28,414,404	\$ 6,966,879
–	31,424	332,869	–
118,388	–	149,232	124,500
(641,465)	(194,036)	(10,298,641)	(7,028,660)
(19,760)	(127)	(46,778)	–
(608,147)	(503,126)	(9,448,621)	4
(82,105)	298,828	9,102,465	62,723
898,429	1,146,539	4,490,521	–
(33,567)	(135,000)	(2,758,902)	–
–	–	(6,298,000)	–
6,298,000	–	6,298,000	–
7,162,862	1,011,539	1,731,619	–
2,955,512	–	3,006,319	–
–	12,177	1,963,356	–
(9,315,489)	(2,194,725)	(22,084,184)	–
(425,104)	–	(3,012,283)	–
(223,187)	–	(1,417,886)	–
–	–	9,900,000	–
–	–	39,729	–
(7,008,268)	(2,182,548)	(11,604,949)	–
36,155	13,759	1,471,447	132,671
–	–	11,000	–
36,155	13,759	1,482,447	132,671
108,644	(858,422)	711,582	195,394
1,142,140	1,416,235	32,789,152	5,111,096
\$ 1,250,784	\$ 557,813	\$ 33,500,734	\$ 5,306,490
\$ 156,548	\$ 557,813	\$ 18,493,497	\$ 5,306,490
270,173	–	3,615,606	–
824,063	–	11,430,631	–
–	–	(39,000)	–
\$ 1,250,784	\$ 557,813	\$ 33,500,734	\$ 5,306,490

(continued)

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (1,394,415)	\$ (244,489)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,839,536	745,169
Landfill closure and postclosure costs	–	598,344
Other receipts	–	–
(Increase) decrease in assets:		
Accounts receivable	(407,477)	(59,270)
Allowance for doubtful accounts	–	(61,496)
Intergovernmental receivable	–	–
Inventories	15,105	–
Increase (decrease) in liabilities:		
Accounts payable	3,512,746	88,148
Accrued payroll and compensated absences	135,859	54,020
Deposits payable	(15,437)	12,207
Intergovernmental payables	–	61,496
Deferred revenue	5,696	–
Total Adjustments	<u>9,086,028</u>	<u>1,438,618</u>
Net cash provided (used) by operating activities	<u>\$ 7,691,613</u>	<u>\$ 1,194,129</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 11,240,290	\$ –
Debt financed	23,100,000	–
Total noncash investing, capital and financing activities	<u>\$ 34,340,290</u>	<u>\$ –</u>

The notes to the financial statements are an integral part of this statement

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (1,827,922)	\$ 22,430	\$ (3,444,396)	\$ 102,342
1,799,861	256,840	8,641,406	-
-	-	598,344	-
110,835	-	110,835	-
(27,757)	(46,584)	(541,088)	35,719
-	-	(61,496)	-
-	-	-	-
-	-	15,105	-
(117,650)	61,951	3,545,195	(75,342)
(1,387)	4,191	192,683	4
558	-	(2,672)	-
-	-	61,496	-
(18,643)	-	(12,947)	-
<u>1,745,817</u>	<u>276,398</u>	<u>12,546,861</u>	<u>(39,619)</u>
<u>\$ (82,105)</u>	<u>\$ 298,828</u>	<u>\$ 9,102,465</u>	<u>\$ 62,723</u>
\$ -	\$ 12,810,944	\$ 24,051,234	\$ -
-	-	23,100,000	-
<u>\$ -</u>	<u>\$ 12,810,944</u>	<u>\$ 47,151,234</u>	<u>\$ -</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Firemen's Pension Fund
ASSETS	
Cash and cash equivalents	\$ 217,207
Interest receivable	1,757
Total assets	<u>218,964</u>
LIABILITIES	
Other liabilities	-
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u>\$ 218,964</u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007

	Firemen's Pension Fund
ADDITIONS:	
Investment earnings	\$ 8,927
Total additions	<u>8,927</u>
 DEDUCTIONS:	
Retirement payments	<u>7,200</u>
Total deductions	<u>7,200</u>
 Change in net assets	 <u>1,727</u>
 Net assets – beginning of year	 <u>217,237</u>
Net assets – end of year	<u><u>\$ 218,964</u></u>

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved June 29, 1998. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for construction on additional facilities owned by the City and currently leased to the United States Geological Survey (USGS). These bonds will be repaid through USGS lease proceeds. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass. The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

Related Organizations: The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely a significant extent on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide statement of net assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals' net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as major fund because of community focus. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

GASB Statement 34 requires reporting of infrastructure such as roads, bridges, canal systems, ditches, water systems, sewer systems, and recreational assets on a prospective basis effective July 1, 2002 and retrospectively for all major infrastructure assets acquired or constructed by fiscal year 2007. For the year ending June 30, 2007, the City has retroactively reported all network infrastructure acquired by its governmental fund types.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues, and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements. The net costs/income of the internal service fund is also partially allocated to the business-type activities column on the government-wide financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

Governmental Fund Types

Governmental Funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4th Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.
- *Bed, Board and Booze Tax Fund* that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. None of the debt service funds are reported as major in the current year.

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. The city reports it one capital project fund as major.

- The *Capital Project Bond Construction Fund* accounts for the activity related to the General Bonding Obligations and associated capital construction for capital projects as approved by voters in May 2004.

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Fund Types

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has four enterprise funds all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Utility* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection, and treatment systems
- *Environmental Services Fund* that accounts for the operations of City refuse and recycling collection services as well as the management of the City landfill.
- *Airport Fund* that accounts for the construction, operations and maintenance of the City airport.
- *Stormwater Utility* accounts for the activities of the City stormwater system

Internal Service Fund accounts for the operations that provide services to other departments of the government on a cost-reimbursement basis, thus the internal service fund is presented with the proprietary fund financial statements. The internal service fund represents the self-insurance services provided to other departments and accounts for the risk management function of the City as well as maintaining the costs of the City's liability insurance and any claims paid under the City's self-insurance program. These costs are allocated to all operational activities of the City.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Firemen's Pension Fund is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting.

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide statement of net assets.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the pension trust fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

Budgets and Budgetary Accounting

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements.

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.
- All funds of the City have legally adopted budgets with the exception of the Internal Service Fund and Perpetual Care Fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

The City prepares its annual budget on a modified cash basis, which differs from GAAP, GASB Statement 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results on a budgetary basis at the legal level of budgetary control. The City's legal level of budgetary control is at the department level; however the City's financial statements are presented at the functional level of detail. Budgetary comparisons provided in the basic financial section are presented for the General Fund and major special revenue funds at the department level; these are presented as statements. The supplemental section provides budgetary comparisons for non-major special revenue funds, capital projects funds and debt service funds at the same functional level of detail used in financial statements presentation; these are presented as schedules.

D. Assets, Liabilities, and Net Assets

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the State's Local Government Investment Pool (LGIP), in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments. Investments are stated at fair value.

The LGIP is a part of the State of Arizona Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. Investments in the State of Arizona LGIP are stated at fair value, which also approximates the value of the investment upon withdrawal.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

Receivables and Payables

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Enterprise Fund, the BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2006-2007, primary and secondary property tax collections amounted to \$4,453,454 and \$5,187,895 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost or estimated historical cost if actual amounts are unknown. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20–50
Improvements	10–20
Machinery and Equipment	5–20
Infrastructure	10–50

Compensated Absences

Vacation and sick leave is granted to all regular and part-time permanent employees. The annual amount of vacation time accrued varies depending on classification and years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. Sick leave accrues at rates based on the full time equivalency status of each employee. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave.

For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liabilities for compensated absences are recorded as a liability.

Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services. Exceptions include water sales, sewer charges, and environmental service charges that are recorded as revenue in the enterprise funds and expenses or expenditures in the department receiving the service. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Fund Equity

In the fund financial statements, reserved fund balance is defined as that portion of fund balance that has legally been segregated for specific purposes. Designated fund balance is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/undesignated fund balance is defined as that portion of fund balance, which is available for use in a future period.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 51,846,054	\$ -	\$ -	\$ 5,306,490	\$ (47,987,036)	\$ 9,165,508
Cash with fiscal agents	6,416,809	-	-	-	-	6,416,809
Investments	-	-	-	-	47,987,036	47,987,036
Accounts receivable, net	9,071,158	-	142,197	89,488	-	9,302,843
Interest receivable	541,269	-	-	37,391	-	578,660
Intergovernmental receivables	2,772,823	-	-	-	(1,102,000)	1,670,823
Bond proceeds receivable	116,916	-	-	-	-	116,916
Special assessments receivable	1,007	-	-	-	-	1,007
Interfund receivable	1,102,000	-	-	385,990	-	1,487,990
Deferred issuance costs – Prepaid items	-	-	598,563	-	-	598,563
Inventory	308,497	-	-	-	-	308,497
Restricted cash and cash equivalents	22,136,955	-	-	-	-	22,136,955
Restricted investments	25,739,414	-	-	-	-	25,739,414
Capital assets	-	243,623,368	-	-	-	243,623,368
Total Assets	\$ 120,052,902	\$ 243,623,368	\$ 740,760	\$ 5,819,359	\$ (1,102,000)	\$ 369,134,389
Liabilities and Net Assets						
Accounts payable	\$ 11,823,604	\$ -	\$ -	\$ 479,947	\$ -	\$ 12,303,551
Accrued payroll & compensated absences	1,539,341	-	-	4	(20,629)	1,518,716
Interest payable	1,538,039	-	-	-	-	1,538,039
Interfund payable	1,102,000	-	-	-	(1,102,000)	-
Unearned revenue	649,999	-	-	-	-	649,999
Deferred revenue	144,844	-	(144,844)	-	-	-
Guaranty and other deposits	1,958,326	-	-	-	-	1,958,326
Arbitrage rebate	-	-	104,730	-	-	104,730
Current bonds/contracts payable	4,880,000	-	-	-	-	4,880,000
Unamortized bond premium	-	-	1,108,863	-	-	1,108,863
Liabilities payable from restricted assets	1,506,421	-	-	-	-	1,506,421
Compensated absences	-	-	2,933,199	-	20,629	2,953,828
Unmatured long-term debt	-	-	85,706,330	-	-	85,706,330
Fund balance/Net Assets, as restated	94,910,328	243,623,368	(88,967,518)	5,339,408	-	254,905,586
Total liabilities and net assets	\$ 120,052,902	\$ 243,623,368	\$ 740,760	\$ 5,819,359	\$ (1,102,000)	\$ 369,134,389

- (1) Capital assets (land, buildings, equipment, etc.) used in governmental activities are purchased or constructed with the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 361,692,468
Accumulated depreciation	(118,069,100)
	<u>\$ 243,623,368</u>

- (2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 598,563</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 142,197</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long term are reported in the statement of net assets.

Bonds payable	\$ 90,586,330
Compensated absences	2,953,828
Arbitrage rebate	104,730
Unamortized bond premium	<u>1,108,863</u>
Subtotal	<u>94,753,751</u>
Less: current portion compensated absences	20,629
current portion of bonds and leases	<u>4,880,000</u>
	<u>\$ 89,853,122</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred special assessment	\$ 1,007
Deferred property tax	<u>143,837</u>
	<u>\$ 144,844</u>

- (3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

ISF net assets	<u>\$ 5,339,408</u>
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- (4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Interfund receivables	1,102,000
Interfund payables	<u>(1,102,000)</u>
	<u>\$ -</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 41,976,134	\$ -	\$ 25,084	\$ -	\$ -	\$ 42,001,218
Intergovernmental	18,779,168	-	-	-	-	18,779,168
Grants and entitlements	12,185,406	-	-	-	-	12,185,406
Charges for services	2,605,880	-	-	-	-	2,605,880
Special assessments	2,927	-	(2,927)	-	-	-
Licenses and permits	2,438,599	-	-	-	-	2,438,599
Fines and forfeitures	1,290,667	-	(179,495)	-	-	1,111,172
Rent	1,480,686	-	-	-	-	1,480,686
Investment earnings	3,920,473	-	-	188,388	-	4,108,861
Contributions	2,981,982	6,270,672	-	-	-	9,252,654
Miscellaneous	1,377,552	-	-	-	-	1,377,552
Total revenue	89,039,474	6,270,672	(157,338)	188,388	-	95,341,196
Expenditures/Expenses						
General governmental	8,194,214	675,611	174,521	(9,078)	-	9,035,268
Public safety	22,994,522	855,550	169,031	(24,112)	-	23,994,991
Public works	1,615,049	249,698	19,635	(1,893)	-	1,882,489
Economic and physical development	9,344,676	131,858	41,431	(9,559)	-	9,508,406
Culture and recreation	8,648,628	1,422,765	28,218	(10,142)	-	10,089,469
Highways and streets	7,859,004	6,639,296	73,475	(14,635)	-	14,557,140
Principal retirement	5,313,222	-	(5,313,222)	-	-	-
Interest and other charges	3,210,879	-	(120,739)	-	-	3,090,140
Capital outlay	26,403,203	(26,403,203)	-	-	-	-
Total expenditures/expenses	93,583,397	(16,428,425)	(4,927,650)	(69,419)	-	72,157,903
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	-	-	-	-	-	-
Bond proceeds	19,075,000	-	(19,075,000)	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	-
Bond (discount) premium	46,707	-	(46,707)	-	-	-
Sale of capital assets	252,329	(10,162)	-	-	-	242,167
Transfers in	17,756,847	-	-	-	-	17,756,847
Transfers out	(19,488,466)	-	-	-	(7,391,577)	(26,880,043)
Total other financing sources (uses)	17,642,417	(10,162)	(19,121,707)	-	(7,391,577)	(8,881,029)
Net change for the year	\$ 13,098,494	\$ 22,688,935	\$ (14,351,395)	\$ 257,807	\$ (7,391,577)	\$ 14,302,264

Capital outlay	\$ 26,403,203
Depreciation expense	(9,974,778)
Gain (loss) on sale of capital assets	(10,162)
Donated capital assets	6,270,672
	<u>\$ 22,688,935</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	\$ (2,927)
Property tax	25,084
Court revenue	(179,495)
	<u>\$ (157,338)</u>

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Amortization of bond issuance costs	\$ (69,998)
Arbitrage rebate	\$ (104,730)
	<u>\$ (174,728)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	<u>\$ (331,583)</u>
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Prepayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities

Principal bond payments	\$ 5,313,222
Bond issuance	(19,075,000)
Bond premium	(46,707)
Amortization of bond premium	120,739
	<u>\$ (13,687,746)</u>

- (3) Internal service funds are used by management to charge the costs of self insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue	\$ 188,388
Expenditures	69,419
	<u>\$ 257,807</u>

- (4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Transfer of capital assets to enterprise fund	<u>\$ (7,391,577)</u>
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C. Fund Balance – Net Assets Restatement

Change due to Accounting Error

An accounting error was discovered and corrected in the general fund receivables for state shared revenue that resulted in a prior period adjustment. The City had been accruing all state wires received in July for revenue earned in June. Through the review of the prior history of the account, it was determined that state shared revenue is wired and received in the same month that it is due so there should be no accrual. The cumulative effect of this was a reduction in the beginning fund balance to the General Fund of \$578,995.

Change due to the Inclusion of Infrastructure

To satisfy the requirements of GASB-34, the City has retroactively recognized infrastructure for Governmental Activities. The cumulative effect of this was an increase in the beginning fund balance to Governmental Activities of \$91,079,578.

General Fund	
Fiscal year 2006 ending fund balance	\$ 29,386,040
Change due to accounting error	(578,995)
Fiscal year 2007 beginning fund balance, as restated	<u>\$ 28,807,045</u>
Governmental Activities	
Fiscal year 2006 ending net assets	\$ 150,102,739
Change due to accounting error	(578,995)
Change due to inclusion of infrastructure	91,079,578
Fiscal year 2007 beginning net assets, as restated	<u>\$ 240,603,322</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.
- Fund balances reserved to inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation and landfill closure and post closure accrual, are not included in the budget.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds, and Fiduciary funds.

Review and Approval

Issues presented during the review and approval period include discussion topics of the Council during the fall and spring retreats. The fall and spring retreats were held in October and March respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments, and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative Home Rule Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2007 the Transportation Fund witnessed excess expenditures, however total City budget appropriation was not exceeded. Expenditures exceeded appropriations due to a budgeting estimate error in the Community Development line by \$2,385,128, which represents capital outlay increases in anticipated expenditures. These over-expenditures were funded by reduced spending in other expenditures lines.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds except the Fireman's Pension Fund, which have investments held separately by a trustee. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and cash equivalents."

Deposits

At June 30, 2007, the carrying amount of the City's deposits was \$14,540,843 and the bank balance was \$19,814,968. The \$5,274,125 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2007.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes and the City's investment policy require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits covered by federal depository insurance. As of June 30, 2007, all City deposits and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name. All investments are either registered in the City's name or are held by a third party in the City's name.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy matches maturities with cash flow dates, unless matched to a specific requirement the City may not invest more than 25 percent of the portfolio for a period greater than three years or any portion of the portfolio for a period greater than 10 years.

At June 30, 2007, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. agency securities – implicit	\$ 70,565,062	1.288
Certificate of deposit	3,161,389	1.255
Municipal securities	39,000	3.000
Mutual fund–money market	2,618,464	0.003
State Investment Pool	54,060,698	0.005
Total fair value of investments	<u>\$ 130,444,613</u>	
Portfolio weighted average maturity		0.730

Credit Risk

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit, and the State of Arizona Local Government Investment Pool (LGIP).

The credit quality ratings of investments as described by nationally recognized Standard and Poor's rating service as of June 30, 2006 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	A+	Unrated
U.S. agency securities – implicit	\$ 70,565,062	N/A	\$ 70,565,062	\$ –	\$ –
Certificates of deposit	3,161,389	Collateralized	–	–	3,161,389
State investment pool (LGIP)	54,060,698	N/A	–	–	54,060,698
Municipal securities	39,000	A	–	39,000	–
Money market funds	2,618,464	N/A	–	–	2,618,464
Total	\$ 130,444,613		\$ 70,565,062	\$ 39,000	\$ 59,840,551

Concentration of Credit Risk

To lessen the risk of loss attributed to the magnitude of a government's investment in a single issuer the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. State of Arizona Investment Pool represents 41 percent of the City's total investments. In addition, Federal Home Loan Bank and Federal National Mortgage Association represent 26 percent and 23 percent, respectively, of the City's total investment.

At June 30, 2007, the City's cash and investments included the following:

Carrying amount of investments	\$ 130,444,613
Carrying amount of cash deposits	14,540,843
Total pooled cash and investments	<u>\$ 144,985,456</u>
Pooled cash and cash equivalents – unrestricted	\$ 27,620,005
Investments – unrestricted	48,026,036
Restricted cash with fiscal agent	10,032,415
Restricted cash and investments	59,307,000
Total pooled cash and investments	<u>\$ 144,985,456</u>

Cash and cash equivalents at June 30, 2007 consisted of the following:

Investments included in cash and cash equivalents	\$ 26,098,678
Carrying amount of unrestricted city deposits	1,725,509
Cash on hand	13,025
Total cash and cash equivalents	<u>27,837,212</u>
Less: cash and cash equivalents of Fiduciary funds	(217,207)
Total cash and cash equivalents per statement of net assets	<u>\$ 27,620,005</u>

Investment income comprises the following for the year ended June 30, 2007:

Net interest and dividends	\$ 4,843,867
Net increase (decrease) in the fair value of investments	820,661
Total net investment income	<u>5,664,528</u>
Less: net investment income of Fiduciary funds	(8,774)
Total net investment income per statement of activities	<u>\$ 5,655,754</u>

The net increase in the fair value of investments during fiscal year 2006–2007 was \$820,661. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2007 was \$(399,138).

In previous years, the City reported a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants, and others in May 2003. The case is presently pending litigation. There have been several distributions since June 2006. The distributions include payments from the trustee and settlement proceeds received from pending litigation. The City has received \$188,467 during the fiscal year plus interest of \$4,702 as a partial recovery, with total to date recovery of \$762,033.

B. Receivables

Receivables as of June 30, 2007, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General	\$ 5,095,562	\$ 259,332	\$ 1,512,669	\$ 116,916	\$ -	\$ 6,984,479
Highway User Revenue	3,461,555	78,959	-	-	-	3,540,514
Transportation	1,276,053	67,319	689,160	-	-	2,032,532
BBB	577,330	35,991	21,084	-	-	634,405
Capital Projects Bond Construction	-	32,709	-	-	-	32,709
Other Governmental Funds	97,397	66,959	549,910	-	1,007	715,273
Less: Allowance for Uncollectibles	(1,294,542)	-	-	-	-	(1,294,542)
Total Government Funds	9,213,355	541,269	2,772,823	116,916	1,007	12,645,370
Internal Services Funds	89,488	37,391	-	-	-	126,879
Total Governmental Activities	9,302,843	578,660	2,772,823	116,916	1,007	12,772,249
Business-Type Activities						
Water and Wastewater	2,463,809	190,014	44,693	23,100,000	-	25,798,516
Environmental Services	891,387	113,875	61,496	-	-	1,066,758
Airport	100,620	6,712	6,472,369	-	-	6,579,701
Stormwater	100,615	1,843	-	-	-	102,458
Less: Allowance for Uncollectibles	(61,000)	-	-	-	-	(61,000)
Total Business-Type Activities	3,495,431	312,444	6,578,558	23,100,000	-	33,486,433
Total activities	\$ 12,798,274	\$ 891,104	\$ 9,351,381	\$ 23,216,916	\$ 1,007	\$ 46,258,682

\$55,000 of the General fund accounts receivables are not expected to be collected in one year.

C. Capital Assets

In fiscal year 2007, the City completed its evaluation of the City's entire infrastructure as required by GASB 34. The July 1, 2006 balance has been restated to include the retroactive reporting of the City's infrastructure.

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2007 is as follows:

	As Restated Balance July 1, 2006	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2007
Governmental activities:					
Non-depreciable assets:					
Land	\$ 31,936,701	\$ 291,200	\$ (17,100)	\$ 8,451,842	\$ 40,662,643
Construction -in-progress	46,716,348	14,370,025	-	(39,830,762)	21,255,611
Total non-depreciable assets	78,653,049	14,661,225	(17,100)	(31,378,920)	61,918,254
Depreciable assets:					
Buildings	37,025,621	1,153,084	(582,148)	41,125	37,637,682
Improvements	17,389,612	4,354,755	(562,610)	-	21,181,757
Machinery and equipment	23,751,231	2,991,356	(1,106,047)	1,553,325	27,189,865
Infrastructure	185,010,523	9,513,455	-	19,240,932	213,764,910
Total depreciable assets	263,176,987	18,012,650	(2,250,805)	20,835,382	299,774,214
Accumulated depreciation:					
Buildings	(11,612,778)	(845,059)	576,996	8,000	(11,872,841)
Improvements	(7,698,849)	(1,244,528)	703,914	-	(8,239,463)
Machinery and equipment	(14,972,610)	(1,591,130)	976,833	85,625	(15,501,282)
Infrastructure	(79,219,789)	(6,294,061)	-	3,058,336	(82,455,514)
Total accumulated depreciation	(113,504,026)	(9,974,778)	2,257,743	3,151,961	(118,069,100)
Governmental activities capital assets, net	\$ 228,326,010	\$ 22,699,097	\$ (10,162)	\$ (7,391,577)	\$ 243,623,368

	Balance July 1, 2006	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2007
Business-type activities:					
Non-depreciable assets:					
Land	\$ 10,300,797	\$ -	\$ -	\$ -	\$ 10,300,797
Construction -in-progress	13,153,346	19,430,700	-	(723,301)	31,860,745
Total non-depreciable assets	23,454,143	19,430,700	-	(723,301)	42,161,542
Depreciable assets:					
Buildings	79,219,573	-	-	8,000	79,227,573
Improvements	253,113,357	19,138,435	-	14,511,043	286,762,835
Machinery and equipment	20,760,561	941,895	(331,200)	(3,268,159)	18,103,097
Total depreciable assets	353,093,491	20,080,330	(331,200)	11,250,884	384,093,505
Accumulated depreciation:					
Buildings	(28,289,659)	(1,766,477)	-	(8,000)	(30,064,136)
Improvements	(79,892,658)	(5,899,665)	-	(3,058,336)	(88,850,659)
Machinery and equipment	(11,262,070)	(974,759)	322,323	(69,670)	(11,984,176)
Total accumulated depreciation	(119,444,387)	(8,640,901)	322,323	(3,136,006)	(130,898,971)
Business-type activities capital assets, net	\$ 257,103,247	\$ 30,870,129	\$ (8,877)	\$ 7,391,577	\$ 295,356,076

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

Governmental Activities:

General government	\$ 675,611
Public safety	855,550
Public works	249,698
Economic and physical development	131,858
Culture and recreation	1,422,765
Highway and streets	6,639,296
Total depreciation expense – governmental activities	\$ 9,974,778

D. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$385,990 are included in the government-wide financial statements at June 30, 2007. The interfund balances at June 30, 2007 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. With the exception of the \$94,897 between the Airport and Internal Service Fund, all interfund balances outstanding at June 30, 2007 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2007:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
General	\$ 1,102,000	\$ -
Capital projects bond construction	-	800,000
Other governmental funds	-	302,000
Internal service	94,897	-
Total governmental funds	<u>1,196,897</u>	<u>1,102,000</u>
Business-Type Funds:		
Water and wastewater	6,800,000	-
Airport	-	6,894,897
Total enterprise funds	<u>6,800,000</u>	<u>6,894,897</u>
Total governmental and enterprise funds	<u>\$ 7,996,897</u>	<u>\$ 7,996,897</u>
Less: fund eliminations	(7,902,000)	
Adjustment for internal service fund elimination	<u>291,093</u>	
Total government-wide statement of net assets	<u>\$ 385,990</u>	

Transfers

The net transfers of \$9,123,196 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were no significant transfers during fiscal year 2007 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. The following transfers are reflected in the fund financial statements for the year ended June 30, 2007:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Funds:		
General	\$ 6,719,751	\$ 3,873,247
Highway User Revenue	85,401	4,634,466
Transportation	3,466,413	-
BBB	1,823,792	2,987,000
Capital Projects Bond Construction	-	1,338,000
Other governmental funds	7,393,109	4,924,134
Total governmental funds	<u>19,488,466</u>	<u>17,756,847</u>
Business-Type Funds:		
Water and Wastewater	2,570,847	2,413,053
Environmental Services	19,488	32,500
Airport	33,567	898,429
Stormwater	135,000	1,146,539
Total enterprise funds	<u>2,758,902</u>	<u>4,490,521</u>
Total governmental and enterprise funds	<u>\$ 22,247,368</u>	<u>\$ 22,247,368</u>
Less: fund eliminations	(20,515,749)	
Add: capital assets transfer	<u>7,391,577</u>	
Total government-wide statement of activities	<u><u>\$ 9,123,196</u></u>	

E. Leases

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2007 lease expense for the library was \$77,839. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2007.

<u>Year Ending June 30</u>	<u>East Flagstaff Library</u>
2008	\$ 84,368
2009	84,368
2010	84,368
2011	84,368
2012	84,368
2013	56,245
Total	<u><u>\$ 478,085</u></u>

The City has entered into several operating lease agreements, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2007 were \$161,072.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$4,928,645 (cost of \$5,730,896 less accumulated depreciation of \$802,251) with current depreciation of \$154,880. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2007 was \$1,397,786. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2018. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

<u>Year Ending June 30</u>	<u>USGS Building #6</u>
2008	\$ 777,783
2009	778,070
2010	778,070
2011	778,070
2012	778,070
2013 – 2018	3,955,189
Total	<u>\$ 7,845,252</u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2007 was \$1,002,511. The carrying value of the leased assets is \$5,999,087 (cost of \$9,062,372 less accumulated depreciation of \$3,063,285) with current year depreciation of \$187,435.

F. Long-Term Debt

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$72,344,240.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2007:

Purpose	Amount
Governmental activities	\$ 30,975,000
Governmental activities – refunding	255,000
Business-type activities	1,680,000
Business-type activities – refunding	11,630,000
Total general obligation bonds outstanding	<u>\$ 44,540,000</u>

General obligation bonds payable at June 30, 2007 consist of the following individual issues:

Governmental Activities:

\$720,000 Parks and Recreation Refunding Bonds, Series 2003 due in annual installments of \$255,000 to \$465,000 through July 1, 2008; interest rate at 3.0% – 3.25%.	\$ 255,000
\$3,100,000 Parks and Recreation Bonds, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	3,100,000
\$31,500,000 Capital Projects, Series 2006 due in annual installments of \$1,180,000 to \$2,445,000 through July 1, 2023; interest rate at 3.25% to 5.25%.	27,875,000
Total Governmental Activities	<u>31,230,000</u>

Business-type activities:

Water and Wastewater:

\$8,000,000 Water Improvement Project Bonds, Series 1997, principal payment of \$1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007–2012 refunded in December 2003.	1,680,000
\$13,845,000 Water and Wastewater Refunding Bonds Series 2001, due in annual installments of \$1,605,000 to \$2,355,000 through July 1, 2009; interest at 3% to 5%.	4,550,000
\$8,230,000 Water Refunding Bond, Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% – 3.25%.	<u>6,400,000</u>
Total Water and Wastewater	<u>12,630,000</u>

Airport:

\$2,025,000 Airport Refunding Bonds, Series 2001 due in annual installments of \$235,000 to \$345,000 through July 1, 2009; interest at 3% to 5%.	<u>680,000</u>
Total Business-type Activities	<u>13,310,000</u>
Total General Obligation Bonds	<u>\$ 44,540,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 1,880,000	\$ 1,391,258	\$ 2,795,000	\$ 545,100
2009	1,705,000	1,310,326	3,055,000	409,988
2010	1,780,000	1,236,851	1,770,000	263,450
2011	1,850,000	1,161,833	1,860,000	205,926
2012	1,930,000	1,083,870	1,960,000	145,476
2013–2017	9,545,000	3,949,909	1,870,000	81,776
2018–2022	10,805,000	1,664,887	–	–
2023	1,735,000	56,387	–	–
Total	<u>\$ 31,230,000</u>	<u>\$ 11,855,321</u>	<u>\$ 13,310,000</u>	<u>\$ 1,651,716</u>

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

On June 20, 2007, the City issued \$19,075,000 in special assessment bonds for improvements at Aspen Place in the Sawmill Improvement District. These bonds will mature January 1, 2032 with a coupon rate of 5%.

Special assessment bonds outstanding at June 30, 2007:

Purpose	Amount
Governmental activities	\$ 19,339,000

Special assessment bonds payable at June 30, 2007 consist of the following individual issues:

Governmental Activities

\$720,000 Improvement District Bonds, Series 1999 due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	\$ 264,000
\$19,075,000 Improvement District Bonds, due in annual installments of \$460,000 to \$1,345,000, through January 1, 2032; interest at 5.0%.	19,075,000
Total Special Assessment Bonds	\$ 19,339,000

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2008	\$ 82,000	\$ 993,769
2009	88,000	960,462
2010	554,000	944,553
2011	485,000	918,625
2012	505,000	893,875
2013-2017	2,950,000	4,051,750
2018-2022	3,755,000	3,217,375
2023-2027	4,795,000	2,153,875
2028-2032	6,125,000	795,125
Total	\$ 19,339,000	\$ 14,929,409

Revenue Bonds

Highway User Revenue Fund bonds (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service.

Revenue bonds outstanding at June 30, 2007:

Purpose	Amount
Governmental activities	\$ 5,580,000
Governmental activities – refunding	2,145,000
Business-type activities	5,495,967
Total general obligation bonds outstanding	<u>\$ 13,220,967</u>

Revenue bonds at June 30, 2007 consist of the following individual issues:

Governmental Activities:

Street Construction:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 6.12%.

\$ 5,580,000

\$9,375,000 Street and Highway Revenue Refunding Bonds, Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5%

2,145,000

Total Governmental Activities 7,725,000

Business-type Activities:

Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds, Series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

5,495,967

Total Revenue Bonds \$ 13,220,967

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 1,400,000	\$ 411,385	\$ 283,832	\$ 194,969
2009	1,460,000	344,010	293,900	184,901
2010	1,520,000	280,135	304,327	174,474
2011	1,620,000	190,455	315,123	163,678
2012	1,725,000	94,875	326,302	152,499
2013-2017	–	–	1,813,576	580,429
2018-2021			2,158,907	235,100
Total	<u>\$ 7,725,000</u>	<u>\$ 1,320,860</u>	<u>\$ 5,495,967</u>	<u>\$ 1,686,050</u>

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2007:

Purpose	Amount
Governmental activities	\$ 24,315,000

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%.	\$ 3,325,000
\$25,000,000 Fourth Street Municipal Facility Corporation Revenue Bonds, Series 2003 due in annual installments of \$1,000,000 to \$2,145,000 through July 1, 2010; interest at 2% to 5.25%.	20,990,000
Total Other Debt	\$ 24,315,000

Annual debt service requirements to maturity for other debt are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2008	\$ 1,315,000	\$ 1,094,499
2009	1,375,000	1,031,384
2010	1,735,000	985,814
2011	1,795,000	925,071
2012	1,865,000	854,959
2013-2017	10,105,000	3,035,269
2018-2020	6,125,000	653,887
Total	\$ 24,315,000	\$ 8,580,883

Loans Payable

The City of Flagstaff has various loan agreements with the Water and Wastewater Infrastructure Finance Authority of Arizona Revolving Fund Loan Program for the acquisition and construction of water and wastewater facilities and obtaining water rights. The Department of Transportation provides financing for the construction of 14 T hangars at the City Airport.

Loans outstanding as of June 30, 2007:

Purpose	Amount
Business-type activities	<u>\$ 32,957,194</u>

Loan payables at June 30, 2007 consist of the following individual financing options:

Business-type Activities

Water and wastewater:

\$6,000,000 Wastewater infrastructure finance authority due in annual installments of \$214,312 to \$404,665 through July 1, 2012; interest at 3.402%. \$ 1,894,496

\$7,900,000 Water infrastructure finance authority due in annual installments of \$295,000 to \$525,000 through July 1, 2026; interest at 3.28%. 7,560,000

\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834 to \$1,571,901 through July 1, 2027; interest at 3.512% 23,100,000

Total water and wastewater loan payable \$ 32,554,496

Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.6%. \$ 402,698

Total Business-type Activities loan payable \$ 32,957,194

Annual debt service requirements to maturity for loan payables are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2008	\$ 1,497,900	\$ 1,150,062
2009	1,550,486	1,093,293
2010	1,599,597	1,039,178
2011	1,660,287	983,320
2012	1,717,615	925,332
2013-2017	7,252,490	3,831,068
2018-2022	8,339,845	2,499,838
2023-2027	9,338,974	957,853
Total	<u>\$ 32,957,194</u>	<u>\$ 12,479,944</u>

Obligations under Capital Leases

The City has entered into capital lease agreements for energy saving equipment and the construction of a co-generator at Wildcat Wastewater Treatment Plant, with total assets of \$2,871,201 and \$627,188, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2007	Governmental Activities	Business Type Activities
2008	\$ 470,993	\$ 482,692
2009	470,993	482,692
2010	470,993	482,692
2011	470,993	482,692
2012	470,993	482,692
2013–2017	1,177,482	2,287,983
2018–2022	–	1,158,680
2023–2026	–	579,340
Total future minimum lease payments	3,532,447	6,439,463
Less: imputed interest costs	(435,117)	(1,957,809)
Present value of future minimum lease payments	\$ 3,097,330	\$ 4,481,654

Arbitrage

Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. In general the requirements stipulate that the earnings from investments of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each of its financing options subject to the arbitrage rebate requirements. At June 30, 2007, the City has recognized \$104,730 in arbitrage liability.

Changes in long-term liabilities

Liquidation of compensated absences for governmental funds have been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 32,875,000	\$ -	\$ (1,645,000)	\$ 31,230,000	\$ 1,880,000
Special assessment bonds	340,000	19,075,000	(76,000)	19,339,000	82,000
Revenue bonds	9,665,000	-	(1,940,000)	7,725,000	1,400,000
Municipal facility corporate bonds	25,610,000	-	(1,295,000)	24,315,000	1,315,000
Total bonds payable	68,490,000	19,075,000	(4,956,000)	82,609,000	4,677,000
Arbitrage rebate	-	104,730	-	104,730	-
Capital leases	3,454,551	-	(357,221)	3,097,330	369,398
Compensated absences	2,710,173	1,394,652	(1,150,997)	2,953,828	1,304,794
Governmental activity long-term liability	<u>\$ 74,654,724</u>	<u>\$ 20,574,382</u>	<u>\$ (6,464,218)</u>	<u>\$ 88,764,888</u>	<u>\$ 6,351,192</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 16,294,726	-	\$ (2,984,726)	\$ 13,310,000	\$ 2,795,000
Water & sewer revenue bonds	5,770,075	-	(274,108)	5,495,967	283,832
Total bonds payable	22,064,801	-	(3,258,834)	18,805,967	3,078,832
Water & sewer loan payable	2,236,830	31,000,000	(682,334)	32,554,496	1,464,815
Airport loan payable	433,993	-	(31,295)	402,698	33,085
Capital lease payable	2,651,651	2,000,000	(169,997)	4,481,654	254,549
Total loan and leases payable	5,322,474	33,000,000	(883,626)	37,438,848	1,752,449
Compensated absences	451,778	355,436	(241,768)	565,446	295,769
Landfill closure/postclosure	1,863,856	598,344	(875,435)	1,586,765	-
Business-type activity long-term liability	<u>\$ 29,702,909</u>	<u>\$ 33,953,780</u>	<u>\$ (5,259,663)</u>	<u>\$ 58,397,026</u>	<u>\$ 5,127,050</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2007 have potential exposure to the City of approximately \$414,392 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

<u>Fiscal Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2004-05	\$ 194,677	\$ 69,326	\$ 33,787	\$ 230,216
2005-06	230,216	322,146	59,141	493,221
2006-07	493,221	2,771	81,600	414,392

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

B. Commitments and contingent liabilities

Outstanding Contracts

At June 30, 2007 there were major outstanding contracts as follows:

Airport fund	\$ 11,464,258
Highway users revenue fund	10,394,162
Transportation fund	465,094
General fund	199,417
Beautification fund	514,058
Community redevelopment fund	438,872
Metropolitan planning organization fund	93,191
Stormwater fund	1,542,066
BBB recreation fund	48,541
Environmental services fund	482,488
Capital projects fund	20,215,192
Water and wastewater fund	34,079,770
	<u>\$ 79,937,110</u>

On December 1, 2004, the City entered into a development agreement with Railhead Associates, LLC to redevelop and expand the Flagstaff Mall and general improvements in traffic flow, utilities, and detention in the East Flagstaff Gateway Redevelopment area with the collateral benefit of creating additional development, including, but not limited to, an auto park for automobile sales and mixed use developments. As part of the agreement, the City is contributing \$10 million to this redevelopment project. Payments are being made on a percentage of completion basis. On June 30, 2007, the outstanding balance on this contract was \$7.5 million. The agreement will terminate on the date that the developer has completed 100% of the improvements as outlined in the development agreement and the City has made the final payment of \$1 million.

The City entered into a Development Incentive Agreement (DA) with Butler & Lone Tree LLC on June 1, 2007. The project known as "Aspen Place at the Sawmill" will be a mixed-use development consisting of 155,000 square feet of retail uses and approximately 265 single-family residential and town home dwelling units. The terms and conditions of the DA is to require the owner of the property to construct and install certain improvements such as streets, drainage retention facilities, public walkways and a raised median on Butler Avenue. In order to finance these improvements, an Improvement District (ID) has been formed. The City issued special assessment bonds in the amount of \$19,075,000. These bonds will be repaid from assessments imposed on the real property included within the ID. The City believes the development will generate substantial transaction privilege tax revenues and the City has agreed to rebate the Landowner a portion of the transaction privilege taxes generated from the property.

On October 10, 2005, the City entered into an Intergovernmental Agreement with Northern Arizona University for the development of a conference center that will be located on the campus of the University. The agreement states that the City will contribute \$2 million toward the construction of this conference center. As of June 30, 2007, the City has made a payment of \$500,000 with subsequent payments being made at the 50%, and 75% completion stages of the project. The last payment will be made after a final inspection of the project is completed.

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program.

C. Retirement and pension plans

Plan Descriptions – The City contributes to the four plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200/(800) 621-3778

PSPRS and EORP

3010 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost Sharing Plans – For the year ended June 30, 2007, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 9.1% (8.6% retirement and 0.50% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2007, 2006, and 2005 were \$2,285,178, \$1,765,599, and \$1,239,656 respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7% of the members' annual covered payroll. The City was required to contribute 18.55% of the members' annual covered payroll, as determined by actuarial valuation. The City's contributions to EORP for the years ended June 30, 2007, 2006, and 2005 were \$15,527, \$11,877, and \$8,728 respectively, which were equal to the required contributions for the year. In addition, a payment of \$4,220 was made in each year as an installment due for its unfunded accrued liability.

Agent Plan – For the year ended June 30, 2007, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 14.40% and 17.59% for Police and Fire respectively.

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2005, the date of the most recent actuarial valuation, and related information follow.

Contribution rates:	PSPRS
City – Police	14.40%
City – Fire	17.59%
Plan members	7.65%
Annual pension cost	\$ 1,275,958
Contributions made	\$ 1,275,958
Actuarial valuation date	6/30/05
Actuarial cost method	Project unit credit
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5% – 8.5%
Includes inflation at	5.0%
Amortization method	Level percentage open
Remaining amortization period from 7-1-00	20 years
Asset valuation method	Smoothed market value

Trend Information – Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSRS 2007			
Police	\$ 881,895	100% \$	-0-
Fire	803,147	100%	-0-
PSRS 2006			
Police	\$ 818,686	100% \$	-0-
Fire	447,025	100%	-0-
PSRS 2005			
Police	\$ 598,122	100% \$	-0-
Fire	400,798	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations; June 30, 2005 is what determines the rates for our F/Y 2007.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS 2006						
Police	\$ 22,906,070	\$ 32,811,911	69.8%	\$ 9,905,841	\$ 5,706,130	173.6%
Fire	32,531,279	40,966,106	79.4%	8,434,827	4,287,395	196.7%
PSRS 2005						
Police	23,170,401	30,726,889	75.4%	7,556,488	5,143,360	146.9%
Fire	33,339,528	38,630,337	86.3%	5,290,809	3,880,002	136.4%
PSRS 2004						
Police	23,305,327	27,287,891	85.4%	3,982,564	4,839,097	82.3%
Fire	32,966,185	34,472,797	95.6%	1,506,612	3,879,272	38.8%

VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") is a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, is eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who has served for 25 years or more, or who has reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$250 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2007, the number of firemen covered by the Fund was classified as follows:

Retirees and beneficiaries currently receiving benefits	3
Active employees:	
Non-vested	<u>3</u>
Total covered firemen	<u>6</u>

Funding Status and Progress:

Per state statute there is no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund are insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

Contributions:

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

Trend Information:

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available (not cash) for Benefits	Revenues				Expenses
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments
1998	\$ 216,843	\$ -	\$ -	\$ 12,332	\$ 390	\$ 9,600
1999	218,401	-	-	11,068	89	9,600
2000	221,678	-	-	12,877	-	9,600
2001	226,593	-	-	13,620	96	8,800
2002	226,632	-	-	7,125	114	7,200
2003	221,730	-	-	2,176	122	7,200
2004	219,214	-	-	4,367	317	7,200
2005	217,606	-	-	5,296	296	7,200
2006	217,237	-	-	6,650	181	7,200
2007	218,964	-	-	8,774	153	7,200

D. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,769,007 as of June 30, 2007, which is based on 58.5 percent usage of the landfill. The remaining \$6,212,904 will be accrued over the remaining life of the landfill, which is currently estimated to be 14 years. The accrual for the closure and postclosure care costs for fiscal year 2007 was \$598,344. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2007 the balance of the investments held for those purposes is \$7,182,242, which includes \$64,254 of accrued interest. The investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$14,981,911, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2007. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.



NON-MAJOR FUNDS OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

Library Fund

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

Real Estate Proceeds Fund

This fund was established by the City Council by resolution in fiscal year 1985–86 to account for the proceeds received from the sale of excess real estate.

Community Redevelopment

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

Metropolitan Planning Organization

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for, and the payments of, general long-term obligation principal and interest.

Special Assessment Bond Fund

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

Secondary Property Tax Revenue Fund

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

Permanent Fund

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care

This fund accounts for the perpetual care of the City's cemetery.

CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and cash equivalents	\$ 2,130,849	\$ 569,552	\$ 2,162,622	\$ 830
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	96,111	863	128	-
Interest receivable	13,270	12,058	17,976	-
Intergovernmental receivables	-	-	180,448	369,462
Special assessments receivable	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	<u><u>\$ 2,240,230</u></u>	<u><u>\$ 582,473</u></u>	<u><u>\$ 2,361,174</u></u>	<u><u>\$ 370,292</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 59,727	\$ -	\$ 49,352	\$ 60,268
Accrued payroll and compensated absences	70,805	-	-	7,444
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	302,000
Deferred revenue	-	-	-	-
Liabilities payable from restricted assets	1,439,680	-	-	-
Total liabilities	<u><u>1,570,212</u></u>	<u><u>-</u></u>	<u><u>49,352</u></u>	<u><u>369,712</u></u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	670,018	582,473	2,311,822	580
Permanent fund	-	-	-	-
Total fund balances	<u><u>670,018</u></u>	<u><u>582,473</u></u>	<u><u>2,311,822</u></u>	<u><u>580</u></u>
Total liabilities and fund balances	<u><u>\$ 2,240,230</u></u>	<u><u>\$ 582,473</u></u>	<u><u>\$ 2,361,174</u></u>	<u><u>\$ 370,292</u></u>

Debt Service Funds			Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	Total Other Governmental Funds
\$ 348,356	\$ 1,347,310	\$ 362,428	\$ 5,561	\$ 6,927,508
2,377,104	-	5,513	-	2,382,617
-	-	-	295	97,397
-	19,925	3,019	711	66,959
-	-	-	-	549,910
-	-	1,007	-	1,007
-	-	-	88,962	88,962
<u>\$ 2,725,460</u>	<u>\$ 1,367,235</u>	<u>\$ 371,967</u>	<u>\$ 95,529</u>	<u>\$ 10,114,360</u>
\$ -	\$ -	\$ 1,063	\$ -	\$ 170,410
-	-	-	-	78,249
1,645,000	-	-	-	1,645,000
732,104	-	6,743	-	738,847
-	-	-	-	302,000
-	-	1,007	-	1,007
-	-	-	-	1,439,680
<u>2,377,104</u>	<u>-</u>	<u>8,813</u>	<u>-</u>	<u>4,375,193</u>
348,356	1,367,235	363,154	-	\$ 2,078,745
-	-	-	88,962	88,962
-	-	-	-	-
-	-	-	-	3,564,893
-	-	-	6,567	6,567
<u>348,356</u>	<u>1,367,235</u>	<u>363,154</u>	<u>95,529</u>	<u>5,739,167</u>
<u>\$ 2,725,460</u>	<u>\$ 1,367,235</u>	<u>\$ 371,967</u>	<u>\$ 95,529</u>	<u>\$ 10,114,360</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2007

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,502,814	-	-	-
Grants and entitlements	134,349	-	763,580	364,424
Charges for services	-	-	411,591	-
Special assessments	-	-	-	-
Investment earnings	67,607	89,046	90,882	-
Contributions	238,348	-	-	-
Miscellaneous	30,731	-	-	-
Total revenues	<u>2,973,849</u>	<u>89,046</u>	<u>1,266,053</u>	<u>364,424</u>
EXPENDITURES:				
Current:				
Economic and physical development	-	3,368	1,092,693	401,304
Culture and recreation	3,999,905	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	256,069	-	328,572	-
Total expenditures	<u>4,255,974</u>	<u>3,368</u>	<u>1,421,265</u>	<u>401,304</u>
Excess (deficiency) of revenues over expenditures	<u>(1,282,125)</u>	<u>85,678</u>	<u>(155,212)</u>	<u>(36,880)</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	652	17,405	-	-
Transfers in	1,445,706	-	341,953	25,000
Transfers out	(78,391)	(2,225,000)	-	-
Total other financing sources (uses)	<u>1,367,967</u>	<u>(2,207,595)</u>	<u>341,953</u>	<u>25,000</u>
Net change in fund balances	<u>85,842</u>	<u>(2,121,917)</u>	<u>186,741</u>	<u>(11,880)</u>
Fund balances, beginning of year	<u>584,176</u>	<u>2,704,390</u>	<u>2,125,081</u>	<u>12,460</u>
Fund balances, end of year	<u>\$ 670,018</u>	<u>\$ 582,473</u>	<u>\$ 2,311,822</u>	<u>\$ 580</u>

Debt Service Funds			Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	Total Other Governmental Funds
\$ -	\$ 5,187,895	\$ -	\$ -	\$ 5,187,895
-	-	-	-	2,502,814
-	-	-	-	1,262,353
-	-	-	-	411,591
-	-	2,927	-	2,927
-	76,972	16,670	3,296	344,473
-	-	-	19,460	257,808
-	-	19	-	30,750
-	5,264,867	19,616	22,756	10,000,611
-	-	-	-	1,497,365
-	-	-	-	3,999,905
-	-	-	-	-
1,645,000	-	76,000	-	1,721,000
1,468,274	-	15,446	-	1,483,720
-	-	-	-	584,641
3,113,274	-	91,446	-	9,286,631
(3,113,274)	5,264,867	(71,830)	22,756	713,980
-	-	-	-	18,057
3,111,475	-	-	-	4,924,134
-	(5,089,718)	-	-	(7,393,109)
3,111,475	(5,089,718)	-	-	(2,450,918)
(1,799)	175,149	(71,830)	22,756	(1,736,938)
350,155	1,192,086	434,984	72,773	7,476,105
\$ 348,356	\$ 1,367,235	\$ 363,154	\$ 95,529	\$ 5,739,167



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City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2007

Program	Land	Buildings	Improvements
General government	\$ 3,283,582	\$ 13,502,132	\$ 1,495,798
Public safety	265,259	12,028,001	61,303
Public works	-	5,426,635	265,158
Economic and physical development	1,432,726	2,790,900	24,309
Culture and recreation	3,454,156	3,787,704	17,083,208
Highway and streets	32,226,920	102,310	2,251,981
Subtotal	40,662,643	37,637,682	21,181,757
Less: accumulated depreciation	-	(11,872,841)	(8,239,463)
Total governmental funds capital assets	<u>\$ 40,662,643</u>	<u>\$ 25,764,841</u>	<u>\$ 12,942,294</u>

Machinery and Equipment	Infrastructure	Construction In Progress	Total
\$ 3,698,603	\$ –	\$ 1,748,002	\$ 23,728,117
10,654,548	–	4,695,841	27,704,952
1,112,667	–	–	6,804,460
1,029,054	–	331,680	5,608,669
3,591,699	3,687,586	3,733,477	35,337,830
7,103,294	210,077,324	10,746,611	262,508,440
27,189,865	213,764,910	21,255,611	361,692,468
(15,501,282)	(82,455,514)	–	(118,069,100)
<u>\$ 11,688,583</u>	<u>\$ 131,309,396</u>	<u>\$ 21,255,611</u>	<u>\$ 243,623,368</u>

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2007

Program	As Restated Balance July 1, 2006	Additions	Retirements	Transfers In (out)	Balance June 30, 2007
General government	\$ 21,880,922	\$ 1,855,364	\$ (8,169)	\$ -	\$ 23,728,117
Public safety	23,913,431	4,249,997	(458,476)	-	27,704,952
Public works	7,159,617	163,759	(510,916)	(8,000)	6,804,460
Economic and physical development	5,293,899	502,372	(159,498)	(28,104)	5,608,669
Culture and recreation	27,897,957	8,078,735	(638,862)	-	35,337,830
Highway and streets	255,684,210	17,823,648	(491,983)	(10,507,435)	262,508,440
Total	<u>\$ 341,830,036</u>	<u>\$ 32,673,875</u>	<u>\$ (2,267,904)</u>	<u>\$ (10,543,539)</u>	<u>\$ 361,692,468</u>

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Grants and entitlements	\$ -	\$ -	\$ 236,728	\$ 236,728
Investment earnings	700,396	700,396	1,461,512	761,116
Contributions	-	-	2,721,674	2,721,674
Total revenues	<u>700,396</u>	<u>700,396</u>	<u>4,419,914</u>	<u>3,719,518</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	299	(299)
Capital outlay	<u>24,968,369</u>	<u>24,968,369</u>	<u>7,758,329</u>	<u>17,210,040</u>
Total expenditures	<u>24,968,369</u>	<u>24,968,369</u>	<u>7,758,628</u>	<u>17,209,741</u>
Excess (deficiency) of revenues over expenditures	<u>(24,267,973)</u>	<u>(24,267,973)</u>	<u>(3,338,714)</u>	<u>20,929,259</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	4,365,599	4,365,599	19,075,000	14,709,401
Bond Premium	-	-	46,707	46,707
Transfers in	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,338,000</u>	<u>238,000</u>
Total other financing sources (uses)	<u>5,465,599</u>	<u>5,465,599</u>	<u>20,459,707</u>	<u>14,994,108</u>
Net change in fund balances	<u>(18,802,374)</u>	<u>(18,802,374)</u>	<u>17,120,993</u>	<u>35,923,367</u>
Budgetary fund balances, beginning of year	<u>28,015,857</u>	<u>28,015,857</u>	<u>28,015,857</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 9,213,483</u>	<u>\$ 9,213,483</u>	<u>\$ 45,136,850</u>	<u>\$ 35,923,367</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 17,120,993	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(46,707)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 17,074,286</u>	

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 3,101,501	\$ 3,101,501	\$ 2,502,814	\$ (598,687)
Grants and entitlements	–	–	134,349	134,349
Investment earnings	21,000	21,000	67,607	46,607
Contributions	240,000	240,000	238,348	(1,652)
Miscellaneous	29,000	29,000	30,731	1,731
Total revenues	<u>3,391,501</u>	<u>3,391,501</u>	<u>2,973,849</u>	<u>(417,652)</u>
EXPENDITURES:				
Current:				
Culture and recreation	4,548,517	4,548,517	3,999,905	548,612
Capital outlay	345,500	345,500	256,069	89,431
Contingency	100,000	100,000	–	100,000
Total expenditures	<u>4,994,017</u>	<u>4,994,017</u>	<u>4,255,974</u>	<u>738,043</u>
Excess (deficiency) of revenues over expenditures	<u>(1,602,516)</u>	<u>(1,602,516)</u>	<u>(1,282,125)</u>	<u>320,391</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	–	–	652	652
Transfers in	1,445,706	1,445,706	1,445,706	–
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	<u>1,117,315</u>	<u>1,117,315</u>	<u>1,367,967</u>	<u>250,652</u>
Net change in fund balances	<u>(485,201)</u>	<u>(485,201)</u>	<u>85,842</u>	<u>571,043</u>
Budgetary fund balances, beginning of year	<u>659,214</u>	<u>659,214</u>	<u>659,214</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 174,013</u>	<u>\$ 174,013</u>	<u>\$ 745,056</u>	<u>\$ 571,043</u>

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Investment earnings	\$ 47,350	\$ 47,350	\$ 89,046	\$ 41,696
Total revenues	<u>47,350</u>	<u>47,350</u>	<u>89,046</u>	<u>41,696</u>
EXPENDITURES:				
Current:				
Capital outlay	150,000	150,000	3,368	146,632
Total expenditures	<u>150,000</u>	<u>150,000</u>	<u>3,368</u>	<u>146,632</u>
Excess (deficiency) of revenues over expenditures	<u>(102,650)</u>	<u>(102,650)</u>	<u>85,678</u>	<u>188,328</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	1,200,000	1,200,000	17,405	(1,182,595)
Transfers out	(2,881,000)	(2,881,000)	(2,225,000)	656,000
Total other financing sources (uses)	<u>(1,681,000)</u>	<u>(1,681,000)</u>	<u>(2,207,595)</u>	<u>(526,595)</u>
Net change in fund balances	<u>(1,783,650)</u>	<u>(1,783,650)</u>	<u>(2,121,917)</u>	<u>(338,267)</u>
Budgetary fund balances, beginning of year	<u>2,467,612</u>	<u>2,467,612</u>	<u>2,467,612</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 683,962</u>	<u>\$ 683,962</u>	<u>\$ 345,695</u>	<u>\$ (338,267)</u>

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
REVENUES:				
Grants and entitlements	\$ 1,852,729	\$ 1,852,729	\$ 763,580	\$ (1,089,149)
Charges for services	-	-	411,591	411,591
Investment earnings	-	-	90,882	90,882
Total revenues	<u>1,852,729</u>	<u>1,852,729</u>	<u>1,266,053</u>	<u>(586,676)</u>
EXPENDITURES:				
Current:				
Economic and physical development	4,362,961	4,362,961	1,092,693	3,270,268
Capital outlay	-	-	328,572	(328,572)
Total expenditures	<u>4,362,961</u>	<u>4,362,961</u>	<u>1,421,265</u>	<u>2,941,696</u>
Excess (deficiency) of revenues over expenditures	<u>(2,510,232)</u>	<u>(2,510,232)</u>	<u>(155,212)</u>	<u>2,355,020</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	341,953	341,953	341,953	-
Total other financing sources (uses)	<u>341,953</u>	<u>341,953</u>	<u>341,953</u>	<u>-</u>
Net change in fund balances	<u>(2,168,279)</u>	<u>(2,168,279)</u>	<u>186,741</u>	<u>2,355,020</u>
Budgetary fund balances, beginning of year	<u>2,232,017</u>	<u>2,232,017</u>	<u>2,232,017</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 63,738</u>	<u>\$ 63,738</u>	<u>\$ 2,418,758</u>	<u>\$ 2,355,020</u>

CITY OF FLAGSTAFF, ARIZONA
Metropolitan Planning Organization Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 991,417	\$ 991,417	\$ 364,424	\$ (626,993)
Total revenues	<u>991,417</u>	<u>991,417</u>	<u>364,424</u>	<u>(626,993)</u>
EXPENDITURES:				
Current:				
Economic and physical development	776,417	776,417	401,304	375,113
Contingency	<u>240,000</u>	<u>240,000</u>	<u>-</u>	<u>240,000</u>
Total expenditures	<u>1,016,417</u>	<u>1,016,417</u>	<u>401,304</u>	<u>615,113</u>
Excess (deficiency) of revenues over expenditures	<u>(25,000)</u>	<u>(25,000)</u>	<u>(36,880)</u>	<u>(11,880)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(11,880)</u>	<u>(11,880)</u>
Budgetary fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,880)</u>	<u>\$ (11,880)</u>

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Investment earnings	\$ 300	\$ 300	\$ –	\$ (300)
Total revenues	<u>300</u>	<u>300</u>	<u>–</u>	<u>(300)</u>
EXPENDITURES:				
Debt service:				
Principal retirement	1,645,000	1,645,000	1,645,000	–
Interest and other charges	1,466,708	1,466,708	1,468,274	(1,566)
Capital outlay	–	–	–	–
Total expenditures	<u>3,111,708</u>	<u>3,111,708</u>	<u>3,113,274</u>	<u>(1,566)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,111,408)</u>	<u>(3,111,408)</u>	<u>(3,113,274)</u>	<u>(1,866)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,111,708	3,111,708	3,111,475	(233)
Total other financing sources (uses)	<u>3,111,708</u>	<u>3,111,708</u>	<u>3,111,475</u>	<u>(233)</u>
Net change in fund balances	<u>300</u>	<u>300</u>	<u>(1,799)</u>	<u>(2,099)</u>
Budgetary fund balances, beginning of year	<u>17,286</u>	<u>17,286</u>	<u>17,286</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 17,586</u>	<u>\$ 17,586</u>	<u>\$ 15,487</u>	<u>\$ (2,099)</u>

CITY OF FLAGSTAFF, ARIZONA
Secondary Property Tax Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 5,222,056	\$ 5,222,056	\$ 5,187,895	\$ (34,161)
Investment earnings	39,300	39,300	76,972	37,672
Total revenues	<u>5,261,356</u>	<u>5,261,356</u>	<u>5,264,867</u>	<u>3,511</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,366,920)	(5,366,920)	(5,089,718)	277,202
Total other financing sources (uses)	<u>(5,366,920)</u>	<u>(5,366,920)</u>	<u>(5,089,718)</u>	<u>277,202</u>
Net change in fund balances	<u>(105,564)</u>	<u>(105,564)</u>	<u>175,149</u>	<u>280,713</u>
Budgetary fund balances, beginning of year	<u>1,168,398</u>	<u>1,168,398</u>	<u>1,168,398</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,062,834</u>	<u>\$ 1,062,834</u>	<u>\$ 1,343,547</u>	<u>\$ 280,713</u>

CITY OF FLAGSTAFF, ARIZONA
Special Assessment Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Special assessments	\$ 16,055	\$ 16,055	\$ 2,927	\$ (13,128)
Investment earnings	13,126	13,126	16,670	3,544
Miscellaneous	–	–	19	19
Total revenues	<u>29,181</u>	<u>29,181</u>	<u>19,616</u>	<u>(9,565)</u>
EXPENDITURES:				
Debt service:				
Principal retirement	76,000	76,000	76,000	–
Interest and other charges	<u>15,447</u>	<u>15,447</u>	<u>15,446</u>	<u>1</u>
Total expenditures	<u>91,447</u>	<u>91,447</u>	<u>91,446</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>(62,266)</u>	<u>(62,266)</u>	<u>(71,830)</u>	<u>(9,564)</u>
Net change in fund balances	<u>(62,266)</u>	<u>(62,266)</u>	<u>(71,830)</u>	<u>(9,564)</u>
Budgetary fund balances, beginning of year	<u>417,519</u>	<u>417,519</u>	<u>417,519</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 355,253</u>	<u>\$ 355,253</u>	<u>\$ 345,689</u>	<u>\$ (9,564)</u>

Statistical Section

This part of the City of Flagstaff's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Schedule 1

City of Flagstaff

Net Assets by Component

Last Five Fiscal Years

(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities					
Invested in capital assets, net of related debt	\$ 45,410,334	\$ 41,666,412	\$ 46,759,889	\$ 184,594,782	(1) \$ 204,594,974
Restricted	14,778,358	35,343,236	20,670,257	45,560,390	13,795,935 (3)
Unrestricted	34,178,175	33,494,972	56,392,865	10,448,150	(2) 36,514,677 (4)
Total governmental activities net assets	<u>\$ 94,366,867</u>	<u>\$ 110,504,620</u>	<u>\$ 123,823,011</u>	<u>\$ 240,603,322</u>	<u>\$ 254,905,586</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 173,369,441	\$ 184,863,812	\$ 200,551,217	\$ 230,035,130	\$ 264,381,730
Restricted	5,013,627	5,161,363	3,200,521	2,392,858	2,424,615
Unrestricted	20,858,057	24,092,049	24,948,848	20,303,463	19,267,461
Total business-type activities and net assets	<u>\$ 199,241,125</u>	<u>\$ 214,117,224</u>	<u>\$ 228,700,586</u>	<u>\$ 252,731,451</u>	<u>\$ 286,073,806</u>
Primary government					
Invested in capital assets, net of related debt	\$ 218,779,775	\$ 226,530,224	\$ 247,311,106	\$ 414,629,912	\$ 468,976,704
Restricted	19,791,985	40,504,599	23,870,778	47,953,248	16,220,550
Unrestricted	55,036,232	57,587,021	81,341,713	30,751,613	55,782,138
Total primary government net assets	<u>\$ 293,607,992</u>	<u>\$ 324,621,844</u>	<u>\$ 352,523,597</u>	<u>\$ 493,334,773</u>	<u>\$ 540,979,392</u>

(1) As restated for retroactive reporting of infrastructure

(2) As restated for retroactive reporting due to an accounting error discovered in FY2007

(3) The decrease from the prior period was caused by a substantial spending of unspent bond proceeds.

(4) The increase from the prior period was caused by a substantial increase in capital asset contributions.

The City implemented GASB34 for the year ended June 30, 2003

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.



Schedule 2
City of Flagstaff
Changes in Net Assets
Last Five Fiscal Years
(*accrual basis of accounting*)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental activities:					
General government	\$ 4,840,896	\$ 5,891,617	\$ 5,441,945	\$ 7,458,583	\$ 9,035,268
Public safety	18,270,468	18,792,832	21,018,114	22,525,292	23,994,991
Public works	1,169,302	1,178,137	1,320,459	1,454,731	1,882,489
Economic and physical development	7,272,115	6,473,290	6,807,311	7,842,985	9,508,406
Culture and recreation	8,467,575	8,693,714	9,426,600	8,328,945	10,089,469
Highways and streets	6,184,553	8,886,947	10,011,231	12,043,242	14,557,140
Interest on long-term debt	1,380,182	1,923,325	2,042,555	2,167,626	3,090,140
Total governmental activities expense	47,585,091	51,839,862	56,068,215	61,821,404	72,157,903
Business-type activities:					
Water and wastewater	16,142,040	17,250,441	17,297,017	18,452,368	19,945,366
Environmental	7,556,614	7,319,602	8,548,715	9,096,420	10,073,853
Airport	3,411,603	3,370,447	3,749,669	3,519,749	3,162,391
Stormwater	-	460,936	479,700	791,791	1,019,248
Total business-type activities expense	27,110,257	28,401,426	30,075,101	31,860,328	34,200,858
Total primary government expense	\$ 74,695,348	\$ 80,241,288	\$ 86,143,316	\$ 93,681,732	\$ 106,358,761
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,757,483	\$ 3,257,393	\$ 3,611,862	\$ 4,886,354	\$ 4,171,853
Public safety	743,738	451,802	498,506	815,167	704,800
Public works	830,885	976,793	1,213,714	1,180,097	1,455,461
Economic and physical development	222,008	16,164	321,915	332,356	562,135
Culture and recreation	733,159	722,236	680,755	683,906	742,088
Highways and streets	119,854	-	-	-	-
Operating grants and contributions	3,428,440	2,678,653	4,147,529	3,791,526	2,062,329
Capital grants and contributions	9,646,122	11,757,330	15,180,401	21,566,549	19,356,271
Total governmental activities program revenues	20,481,689	19,860,371	25,654,682	33,255,955	29,054,937

Schedule 2 (continued)

City of Flagstaff

Changes in Net Assets

Last Four Fiscal Years

(accrual basis of accounting)

Business-type activities:

Charges for services:

Water and wastewater

Environmental

Airport

Stormwater

Operating grants and contributions

Capital grants and contributions

Total business-type activities program revenues

Total primary government program revenues

Net (Expense)/Revenue

Governmental activities

Business-type activities

Total primary government net expense

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes

Property taxes

Sales taxes

State shared sales taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Contributions to permanent fund

Transfers in (out)

Total governmental activities

Business-type activities:

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers in (out)

Total business-type activities

Total primary government

Change in Net Assets

Governmental activities

Business-type activities

Total primary government

The City implemented GASB34 for the year ended June 30, 2003

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

	16,534,341	16,678,956	16,223,648	17,047,831	17,337,916
	7,682,458	8,201,566	9,370,561	9,723,652	9,839,486
	926,406	944,983	1,176,866	1,261,594	1,122,274
	-	546,807	694,161	630,962	1,042,701
	382,239	286,919	574,376	369	19,500
	9,460,796	10,482,991	8,164,775	23,449,959	27,369,058
	34,986,240	37,142,222	36,204,387	52,114,377	56,730,935
	\$ 55,467,929	\$ 57,002,593	\$ 61,859,069	\$ 85,370,332	\$ 85,785,872
	\$ (27,103,402)	\$ (31,979,491)	\$ (30,413,533)	\$ (28,565,449)	\$ (43,102,966)
	7,875,983	8,740,796	6,129,286	20,254,049	22,530,077
	(19,227,419)	(23,238,695)	(24,284,247)	(8,311,400)	(20,572,889)
	\$ 8,010,293	\$ 7,931,626	\$ 8,462,302	\$ 9,051,158	\$ 12,169,247
	23,805,566	25,682,974	27,054,164	30,014,975	32,334,785
	12,073,108	12,122,563	12,837,838	14,384,055	16,276,354
	-	810,739	-	377,502	-
	383,111	218,520	1,703,861	2,385,099	4,108,861
	492	905,717	277,972	204,678	1,377,552
	944,381	634,411	382,387	33,417	242,167
	7,435	14,717	17,765	24,630	19,460
	(476,304)	(369,358)	(7,004,365)	(2,267,551)	(9,123,196)
	44,748,082	47,951,909	43,731,924	54,207,963	57,405,230
	106,733	719,023	-	889	-
	-	-	935,973	1,181,836	1,546,893
	23,675	17,302	-	-	110,835
	476,304	369,358	513,738	326,540	31,354
	606,712	1,105,683	7,004,365	2,267,551	9,123,196
			8,454,076	3,776,816	10,812,278
	\$ 45,354,794	\$ 49,057,592	\$ 52,186,000	\$ 57,984,779	\$ 68,217,508
	\$ 17,644,680	\$ 15,972,418	\$ 13,318,391	\$ 25,642,514	\$ 14,302,264
	8,482,695	9,846,479	14,583,362	24,030,865	33,342,355
	\$ 26,127,375	\$ 25,818,897	\$ 27,901,753	\$ 49,673,379	\$ 47,644,619

Schedule 3
City of Flagstaff
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 131,542	\$ 133,533	\$ 186,768	\$ 212,379	\$ 174,932	\$ 176,838	\$ 220,779	\$ 200,401	\$ 232,190	\$ 1,260,236
Unreserved	8,120,997	13,454,402	17,366,998	19,208,574	18,318,999	21,782,895	22,891,253	29,124,795	28,574,855	29,960,235
Total general fund	\$ 8,252,539	\$ 13,587,935	\$ 17,553,766	\$ 19,420,953	\$ 18,493,931	\$ 21,959,733	\$ 23,112,032	\$ 29,325,196	\$ 28,807,045	(1) \$ 31,220,471
All Other Governmental Funds										
Reserved	\$ 5,630,346	\$ 3,963,668	\$ 1,780,611	\$ 5,260,436	\$ 1,106,960	\$ 959,209	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460
Unreserved, reported in:										
Special revenue funds	15,733,412	16,107,637	17,263,742	24,317,465	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640	16,332,830
Permanent fund	-	-	-	-	-	217	567	1,426	3,271	6,567
Total all other governmental funds	\$ 21,363,758	\$ 20,071,305	\$ 19,044,353	\$ 29,577,901	\$ 27,583,489	\$ 22,672,624	\$ 39,154,872	\$ 34,599,132	\$ 53,004,789	\$ 63,689,857

(1) As restated for accounting error discovered during fiscal year 2007

Schedule 4
City of Flagstaff
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
REVENUES:										
Taxes	\$ 19,576,193	\$ 20,582,542	\$ 22,197,133	\$ 28,340,957	\$ 30,986,091	\$ 31,523,875	\$ 33,736,154	\$ 35,529,373	\$ 39,104,903	\$ 41,976,134
Intergovernmental	19,079,704	22,621,143	26,778,117	26,203,650	24,008,885	11,746,308	12,156,451	17,545,686	17,173,416	18,779,168
Grants and entitlements	-	-	-	-	-	13,074,562	10,940,934	9,564,110	10,880,792	12,185,406
Charges for services	920,566	837,373	1,030,249	1,025,625	1,676,615	1,729,275	1,459,837	1,834,067	2,199,819	2,605,880
Special assessments	170,026	157,640	175,863	269,794	350,894	360,158	291,684	218,500	30,016	2,927
Licenses and permits	1,246,090	1,335,184	1,324,340	1,318,450	2,014,357	2,378,728	2,111,033	2,063,718	2,834,506	2,438,599
Fines and forfeitures	783,854	838,306	837,695	993,585	991,131	1,303,069	1,144,562	1,250,494	1,394,174	1,290,667
Rents	-	-	-	-	-	845,443	985,907	1,220,007	1,195,464	1,480,686
Investment earnings	-	-	-	-	-	274,472	115,433	1,589,293	2,238,285	3,920,473
Contributions	-	-	720,000	-	-	334,235	21,917	22,229	129,930	2,981,982
Miscellaneous	2,327,133	2,310,761	4,347,916	3,300,386	3,169,599	781,496	905,717	277,972	204,678	1,377,552
Total revenues	44,103,566	48,682,949	57,411,313	61,452,447	63,197,572	64,351,621	63,869,629	71,115,449	77,385,983	89,039,474
EXPENDITURES:										
General government	3,364,864	4,246,127	3,755,883	4,533,882	5,834,543	4,453,180	5,335,890	6,158,308	6,621,976	8,194,214
Public safety	12,167,725	13,299,094	13,533,876	15,480,047	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547	22,994,522
Public works	794,953	752,777	727,764	1,066,174	950,242	948,944	966,546	1,005,745	1,168,424	1,615,049
Economic and physical development	4,944,639	6,632,815	6,826,950	8,009,996	10,187,883	7,060,275	6,289,966	6,424,057	7,640,313	9,344,676
Culture and recreation	9,225,421	8,584,084	9,582,477	9,325,540	10,030,055	7,599,703	7,724,481	8,341,105	7,178,029	8,648,628
Highways and streets	8,312,245	5,536,908	7,042,108	7,735,150	15,648,877	5,676,050	8,003,110	8,951,097	10,700,196	7,859,004
Debt service:										
Principal retirement	2,265,000	2,380,000	2,265,000	2,708,000	2,979,000	3,679,000	4,614,000	4,880,000	6,505,449	5,313,222
Interest and other charges	1,843,607	1,718,604	1,616,866	1,498,920	1,443,074	1,380,182	2,428,026	2,148,734	2,552,016	3,210,879
Capital outlay	691,627	2,006,000	8,756,365	2,165,989	5,788,006	18,304,161	19,348,708	17,053,841	25,054,173	26,403,203
Total expenditures	43,610,081	45,156,409	54,107,289	52,523,698	68,918,699	66,304,475	72,726,564	74,103,302	89,047,123	93,583,397
Excess of revenues over (under) expenditures	493,485	3,526,540	3,304,024	8,928,749	(5,721,127)	(1,952,854)	(8,856,935)	(2,987,853)	(11,661,140)	(4,543,923)
OTHER FINANCING SOURCES (USES):										
Refunding bonds issued	-	-	-	4,475,343	3,100,000	9,375,000	720,000	-	-	-
Bonds issued	-	-	-	-	-	-	25,000,000	-	31,500,000	19,075,000
Loan proceeds	-	-	-	-	-	-	-	3,800,000	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	(9,429,957)	(718,127)	-	-	-
Lease proceeds	-	898,000	-	-	-	-	-	-	-	-
Improvement District - Proceeds	-	55,352	-	-	-	-	-	-	-	-
Bond premium	-	-	-	-	-	-	1,059,221	-	220,086	46,707
Sale of capital assets	-	-	-	-	-	-	634,411	2,114,398	37,892	252,329
Transfers in	13,089,273	9,876,521	11,582,702	11,241,055	12,994,104	12,708,480	12,996,534	15,312,931	17,317,133	17,756,847
Transfers out	(13,228,564)	(10,313,380)	(11,947,847)	(11,931,179)	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)
Total other financing sources (uses)	(139,291)	516,493	(365,145)	3,785,219	2,486,460	605,215	26,326,147	4,645,277	29,490,427	17,642,417
Net change in fund balances	\$ 354,194	\$ 4,043,033	\$ 2,938,879	\$ 12,713,968	\$ (3,234,667)	\$ (1,347,639)	\$ 17,469,212	\$ 1,657,424	\$ 17,829,287	\$ 13,098,494
Debt service as a percentage of non capital expenditures	9.57%	9.50%	8.56%	8.35%	7.00%	10.54%	13.19%	12.32%	14.15%	12.69%

Schedule 5
City of Flagstaff
Tax Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1998	\$ 2,406	\$ 3,356	\$ 1,512	\$ 8,966	\$ 3,336	\$ -	\$ 19,576
1999	2,578	3,538	1,561	9,369	3,537	-	20,583
2000	2,759	3,777	1,506	10,510	3,645	-	22,197
2001	2,853	3,896	1,690	10,811	3,748	5,343	28,341
2002	3,070	4,198	1,791	11,783	3,817	6,327	30,986
2003	3,427	4,415	1,783	11,469	3,827	6,603	31,524
2004	3,425	4,628	2,262	12,055	4,063	7,303	33,736
2005	3,619	4,856	1,943	13,148	4,331	7,632	35,529
2006	4,209	4,881	2,083	14,707	4,623	8,602	39,105
2007	4,453	5,188	1,838	16,071	4,992	9,434	41,976
Change 1998 - 2007	85.08%	54.59%	21.56%	79.24%	49.64%	100.00%	114.43%

Schedule 6
City of Flagstaff
Intergovernmental Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	State		County Auto In-Lieu Tax	Highway User Tax	Local		State HB 2565	Federal Grants	State Grants & Other State	County LEAF IGA	County Library		Total
	Sales Tax	Income Tax			Transportation Assistance	District Funding					Other		
1998	\$ 4,061,346	\$ 4,725,837	\$ 1,533,501	\$ 5,371,446	\$ 394,318	\$ -	\$ 1,448,951	\$ 553,963	\$ -	\$ 955,342	\$ 35,000	\$ 19,079,704	
1999	4,353,556	5,489,912	1,847,142	7,207,158	367,911	-	1,763,054	272,297	-	1,101,729	218,384	22,621,143	
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	-	1,068,817	3,007,336	26,778,117	
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	-	1,835,109	580,241	26,203,650	
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	-	1,423,105	274,091	24,008,885	
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	-	1,607,306	850,000	24,820,870	
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,921,433	148,992	23,097,385	
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,036,500	39,640	27,109,796	
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,040,924	-	28,054,208	
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,502,814	-	30,964,574	

Schedule 7
City of Flagstaff
Full Cash Value of Taxable Property
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year		Centrally Valued Property	Vacant,				Residential Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
			Commercial Property	Agricultural, and Government Property						
1998	\$	21,839,314	\$ 162,168,726	\$ 44,354,467	\$	161,906,739	\$ 27,643,689	\$	362,625,557	\$ 1.7127
1999		22,050,677	173,940,245	48,929,326		170,882,075	30,236,121		385,566,202	1.7127
2000		21,765,191	190,494,910	49,352,556		180,667,749	34,550,373		407,730,033	1.7127
2001	(1)	31,232,035	192,395,566	51,001,338		189,936,966	35,535,505		429,030,400	1.7127
2002		33,068,867	197,065,506	60,199,456		201,111,291	42,767,442		448,677,678	1.7127
2003		35,621,681	194,944,521	62,099,966		215,320,769	43,729,051		464,257,886	1.7127
2004		29,405,068	211,870,593	65,128,715		242,190,760	46,939,696		501,655,440	1.7127
2005		27,328,709	221,179,062	82,683,618		276,187,028	50,697,830		556,680,587	1.7127
2006		27,532,435	237,795,313	100,985,606		315,182,546	57,296,001		624,199,899	1.6627
2007		28,051,846	261,009,908	125,377,258		398,783,838	62,684,483		750,538,367	1.5929

Source: State of Arizona Department of Revenue, State and County Abstract of the Assessment Roll

Note: A portion of city property is reassessed every year. Property is assessed at actual value, therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

(1) The Legal Classes changed in 2001 from prior years

Schedule 8
City of Flagstaff
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City	School District	Community College	County	Total
1998	\$ 1.7127	\$ 6.6634	\$ 0.3869	\$ 1.1168	9.8798
1999	1.7127	6.5477	0.3952	1.1094	9.7650
2000	1.7127	6.5585	0.5947	1.1444	10.0103
2001	1.7127	6.6885	0.5724	1.1336	10.1072
2002	1.7127	6.6741	0.5717	1.0951	10.0536
2003	1.7127	6.7590	0.5809	1.1941	10.2467
2004	1.7127	6.3679	0.5775	1.2369	9.8950
2005	1.7127	5.7236	0.5660	1.2212	9.2235
2006	1.6627	6.0786	0.5525	1.2010	9.4948
2007	1.5929	5.9009	0.5269	0.7521	8.7728

Note: Tax rates are per \$100 assessed valuation.

Schedule 9

City of Flagstaff

Principal Property Tax Payers

Current Year and Nine Years Ago

2007				1998			
Taxpayer	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	
Arizona Public Service Company	\$ 12,842,007	1	1.71%	12,460,568	1	3.66%	
W L Gore & Associates Inc.	12,604,025	2	1.68%	8,555,901	3	2.51%	
Qwest Corporation	9,023,179	3	1.20%				
Walgreen Arizona Drug Co.	5,500,428	4	0.73%	3,317,068	7	0.97%	
Nestle Purina Petcare Company	4,642,491	5	0.62%	3,846,970	6	1.13%	
Flagstaff Mall Associated Ltd. Partnership	4,460,032	6	0.59%	2,813,650	8	0.83%	
Little America Refining Co.	4,222,503	7	0.56%	5,069,864	5	1.49%	
Cone Company George & Thomas DBA	4,139,636	8	0.55%				
Flagstaff Medical Center Inc	3,430,932	9	0.46%				
UniSource Energy Corporation	2,805,099	10	0.37%				
US West Communications				10,770,644	2	3.16%	
Northern Arizona Gas Division				5,583,821	4	1.64%	
Woodlands Plaza Hotel LTD Partnership				1,720,207	9	0.50%	
Butlington Northern Santa Fe				1,247,292	10	0.37%	
Total Principal Taxpayers	\$ 63,670,332		8.47%	\$ 55,385,985		16.26%	

Source: Coconino County Assessor's Office

Schedule 10
City of Flagstaff
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy	Percentage of Levy		Amount	Percentage of Levy
		Amount				
1998	\$ 5,754,253	\$ 5,651,170	98.2%	110,323	\$ 5,761,493	100.1%
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	100.0%
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	100.0%
2007	9,615,015	9,495,935	98.8%	145,415	9,641,350	100.0%

Schedule 11
City of Flagstaff
Direct and Overlapping Sales Tax Rates,
Last Ten Fiscal Years

Fiscal Year	City			State of Arizona	Coconino County	Total
	General Sales Tax	Bed, Board & Beverage	Transportation			
1998	1.0000%	2.0000%	0.0000%	5.0000%	0.5000%	8.5000%
1999	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2000	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2001	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2002	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2003	1.0000%	2.0000%	0.5745%	5.6000%	0.9250%	10.0995%
2004	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%

City of Flagstaff

Last Six Fiscal Years

(dollars in thousands, except per capita)

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

New bond issues include \$19.1 million special assessment debt; \$30.8 million in loans; and \$2.0 million in capital lease

See Schedule 17 for personal income and population data.

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

These amounts are presented on the accrual basis of accounting.

Schedule 13
City of Flagstaff
Ratios of General Bonded Debt Outstanding
Last Six Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding				Total	Percentage of Actual Taxable Value of Property	a	b
	Governmental		Business-Type					
	Activities		Activities					
	General Obligation Bonds		General Obligation Bonds					
2002		8,935		25,050	33,985	7.6%		574.46
2003		7,485		22,958	30,443	6.6%		498.82
2004		5,795		21,253	27,048	5.4%		441.46
2005		4,285		18,880	23,165	4.2%		378.61
2006		32,875		16,294	49,169	7.9%		792.66
2007		31,230		13,310	44,540	5.9%		718.04

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 17

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information. These amounts are presented on the accrual basis of accounting.

Schedule 14

City of Flagstaff

Direct and Overlapping Governmental Activities Debt

Last Ten Fiscal Years

(dollars in thousands, except per capita)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Flagstaff Unified School District	\$ 22,395	64.00%	\$ 14,333
Other debt			
Coconino County Certificates of Participation	18,180	43.00%	7,817
Coconino County Revenue Bonds	12,445	43.00%	5,351
Coconino County Special Assessments	2,169	0.00%	–
Subtotal, overlapping debt			27,501
City direct debt			<u>85,706</u>
Total direct and overlapping debt		\$	113,207

Sources: Assessed value data used to estimate applicable percentages provided by the Coconino Finance Department. Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Flagstaff. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for Coconino County's revenue bonds and certificates of participation.

20% Debt Limit

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit equal to 20% of assessed valuation	\$ 72,655	\$ 72,525	\$ 77,113	\$ 81,719	\$ 85,806	\$ 92,852	\$ 100,331	\$ 111,336	\$ 124,840	\$ 150,108
Total net debt applicable to 20% limit	36,370	32,519	28,779	27,043	28,425	26,283	24,493	21,644	35,227	43,860
Legal debt margin (Available borrowing capacity)	\$ 36,285	\$ 40,006	\$ 48,334	\$ 54,676	\$ 57,381	\$ 66,569	\$ 75,838	\$ 89,692	\$ 89,613	\$ 106,248
Total net debt applicable to the 20% limit as a percentage of debt limit	100.23%	81.29%	59.54%	49.46%	49.54%	39.48%	32.30%	24.13%	39.31%	41.28%

6% Debt Limit

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit equal to 6% of assessed valuation	\$ 21,796	\$ 21,758	\$ 23,134	\$ 24,516	\$ 25,742	\$ 27,855	\$ 30,099	\$ 33,401	\$ 37,452	\$ 45,032
Total net debt applicable to 6% limit	8,930	8,350	7,720	6,690	5,560	4,160	2,555	1,225	14,202	680
Legal debt margin (Available borrowing capacity)	\$ 12,866	\$ 13,408	\$ 15,414	\$ 17,826	\$ 20,182	\$ 23,695	\$ 27,544	\$ 32,176	\$ 23,250	\$ 44,352
Total net debt applicable to the 6% limit as a percentage of debt limit	69.41%	62.28%	50.08%	37.53%	27.55%	17.56%	9.28%	3.81%	61.08%	1.53%

Legal Debt Margin Calculation for Fiscal Year 2007

Net Secondary Assessed Value as of June 30, 2007	\$ 750,538,367
20% Limitation	
Debt Limit of 20% of Assessed Value	\$ 150,107,673
Debt applicable to limit: General Obligation Bonds	<u>43,860,000</u>
Legal 20% debt margin (Available borrowing capacity)	\$ <u>106,247,673</u>
6% Limitation	
Debt Limit of 6% of Assessed Value	\$ 45,032,302
Debt applicable to limit: General Obligation Bonds	<u>680,000</u>
Legal 6% debt margin (Available borrowing capacity)	\$ <u>44,352,302</u>

Schedule 16
City of Flagstaff
Pledged Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

Water and Sewer Revenue Bonds									
Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Total	Coverage	
				Principal	Interest				
1998	\$ 16,767,650	\$ 7,916,657	\$ 8,850,993	\$ -	-	\$ -	-	-	
1999	16,773,884	7,700,535	9,073,349	-	-	-	-	-	
2000	17,606,349	8,311,186	9,295,163	-	-	-	-	-	
2001	18,337,310	9,757,448	8,579,862	-	-	-	-	-	
2002	17,637,708	9,587,743	8,049,965	-	-	-	-	-	
2003	16,769,463	9,865,571	6,903,892	238,431	17,741		256,172	26.95	
2004	17,227,848	10,645,073	6,582,775	246,890	231,034		477,924	13.77	
2005	16,851,956	10,693,901	6,158,055	255,648	223,153		478,801	12.86	
2006	17,755,038	11,791,895	5,963,143	264,717	214,084		478,801	12.45	
2007	18,235,171	12,892,795	5,342,376	274,108	204,693		478,801	11.16	

Schedule 16 (continued)
City of Flagstaff
Pledged Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

Highway User Revenue Bonds						
Fiscal Year	Highway User Tax Revenue	Debt Service Requirements			Total	Coverage
		Principal	Interest			
1998	\$ 5,371,446	\$ 1,230,000	\$ 1,147,592	\$	2,377,592	2.26
1999	7,207,158	1,290,000	1,082,148		2,372,148	3.04
2000	7,427,210	1,375,000	1,016,507		2,391,507	3.11
2001	7,969,703	1,420,000	960,133		2,380,133	3.35
2002	7,771,416	1,490,000	900,492		2,390,492	3.25
2003	7,408,116	1,730,000	668,260		2,398,260	3.09
2004	6,975,351	1,410,000	607,160		2,017,160	3.46
2005	7,171,383	1,825,000	571,910		2,396,910	2.99
2006	7,540,081	1,890,000	526,285		2,416,285	3.12
2007	7,855,427	1,940,000	469,585		2,409,585	3.26

Schedule 17
City of Flagstaff
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education		School Enrollment	Unemployment Rate
					Level – Percent High School Grad or Higher	Level – Percent Bachelor's Degree or Higher		
1998	58,145	\$ 2,319,364	\$ 20,191	NA	NA	NA	13,249	6.60%
1999	59,945	2,448,155	21,232	NA	NA	NA	12,880	6.60%
2000	52,894	2,661,712	22,815	26.8	89.8%	39.4%	12,682	5.20%
2001	57,700	2,787,863	23,716	26.8	89.8%	39.4%	13,969	4.80%
2002	59,160	2,908,992	24,259	26.8	89.8%	39.4%	13,566	5.10%
2003	61,030	2,999,350	24,795	26.8	89.8%	39.4%	12,905	5.80%
2004	61,270	3,226,683	26,328	26.8	89.8%	39.4%	13,176	5.20%
2005	61,185	3,472,652	28,045	26.8	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,453	3.40%

Sources:

Population – Arizona Department of Economic Security, except for 2000 which is the official census number
Personal Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
Personal Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2006
Per Capita Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
Per Capita Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2006
Median age – 2000 US Census
Education level – 2000 US Census
School enrollment – Arizona Department of Education and National Center for Education Statistics
Unemployment – Arizona Department of Economic Security

Schedule 18

City of Flagstaff

Principal Employers

Current Year

	2007			2006 (1) (2)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
<u>Employer</u>						
Northern Arizona University	3,778	1	12.26%	3,393	1	11.01%
Flagstaff Medical Center	1,985	2	6.44%	1,999	2	6.49%
Flagstaff United School District	1,560	3	5.06%	1,700	3	5.52%
W.L. Gore & Associates	1,300	4	4.22%	1,300	4	4.22%
Coconino County	1,205	5	3.91%	1,075	5	3.49%
City of Flagstaff	901	6	2.92%	948	6	3.08%
Coconino Community College	580	7	1.88%	400	9	1.30%
Grand Canyon Railway	402	8	1.30%	400	8	1.30%
Walmart	400	9	1.30%	-	-	0.00%
Walgreens Distribution Center	434	10	1.41%	400	7	1.30%
SCA Tissue	--			279	10	0.91%
Total	12545		40.70%	11894		38.59%
2000 U.S. Census Labor Force	30,822			30,822		

Source:

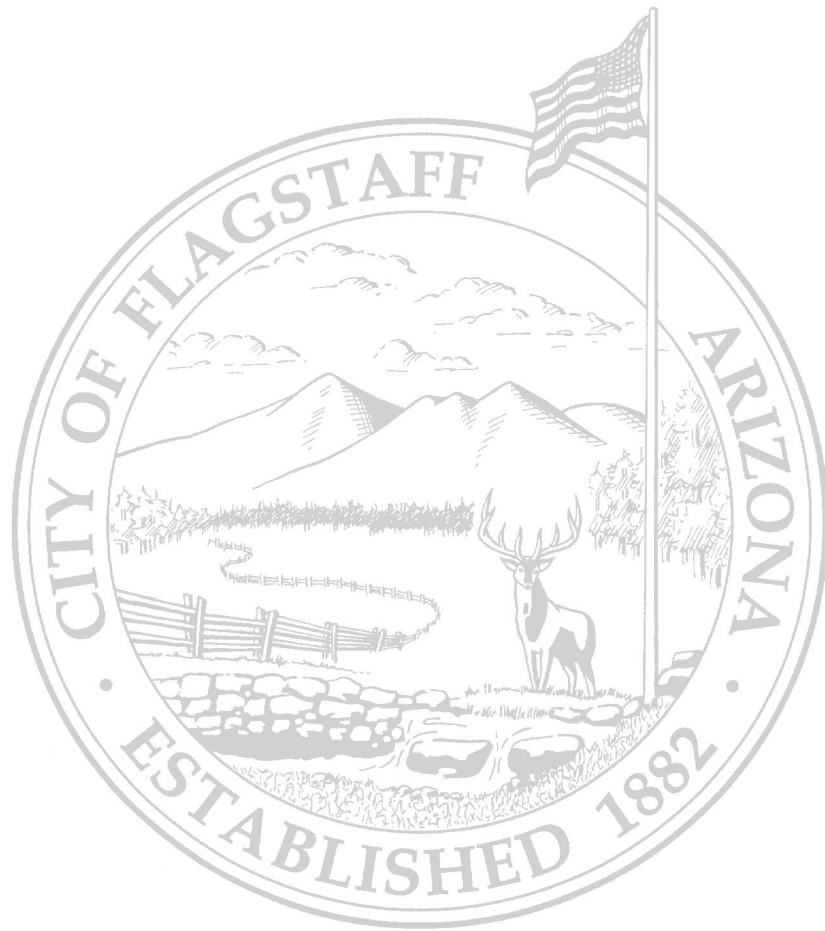
(1) Greater Flagstaff Economic Council (GFEC)

(2) GFEC is no longer operational and could not be used as a resource. The City independently researched this information
It is believe employees were counted outside of the City for both the Grand Canyon Railway and SCA Tissue.

Long-term historical information not available.

Schedule 19
City of Flagstaff
Full-time Equivalent City Government by Function /Program
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Management services	62.25	65.00	69.25	72.00	77.00	74.00	73.00	74.25	75.75	81.89
Capital management	-	-	-	-	19.00	18.50	15.50	14.50	13.50	13.50
City Court	18.25	20.25	20.25	21.25	24.25	25.25	26.50	26.50	26.50	26.50
Public Safety										
Police	130.50	132.75	138.25	147.50	148.25	148.25	150.00	151.00	160.00	164.00
Fire	81.25	84.00	84.50	84.50	97.25	96.75	96.75	96.75	97.75	100.75
Public Works	30.25	30.25	25.75	26.75	26.75	27.00	27.00	25.00	26.00	27.00
Economic and physical development										
Building	53.50	55.00	57.40	57.00	48.00	49.00	43.75	43.00	49.25	53.25
Planning	16.25	17.00	17.10	17.00	17.25	17.25	17.25	17.25	15.25	18.75
Tourism	6.00	6.00	6.00	6.00	6.00	6.00	11.75	13.75	13.75	15.75
Culture and recreation										
Library	35.25	35.75	37.00	37.50	38.75	39.50	39.50	40.00	40.00	43.13
Parks, recreation, and beautification	65.25	68.00	73.25	74.00	79.25	74.50	67.75	63.95	67.53	69.82
Highways and Streets	36.00	35.25	35.25	35.25	35.25	36.25	36.25	36.25	36.25	37.25
Water and wastewater	71.00	72.00	72.00	71.75	74.75	74.50	73.00	74.50	76.50	79.00
Environmental services	27.00	27.00	39.75	40.00	45.00	45.00	45.75	52.25	54.00	62.60
Airport	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	10.00
Stormwater	-	-	-	-	-	-	5.75	5.00	6.50	6.50
Total	642.25	657.75	685.25	700.00	746.25	741.25	739.00	743.45	768.03	809.69



Schedule 20
City of Flagstaff
Operating Indicators by Function /Program
Last Six Fiscal Years

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Court						
Criminal Filings	11,005	11,068	10,236	9,227	9,705	9,553
Traffic filings	10,431	10,613	10,388	11,253	10,575	8,951
Domestic Violence/Other filings	575	622	682	673	616	530
Fire						
Emergency responses	3,386	3,658	5,616	6,722	7,684	8,227
Fires response	352	216	265	228	351	314
Other calls	2,094	1,205	2,023	1,905	1,323	1,472
Inspections assigned	NA	NA	2,212	2,006	1,966	1,984
Plan Reviews	NA	NA	1,340	1,348	1,280	1,314
Fuel Management						
Plan Assessment (Acres)	NA	1,516	2,020	1,065	585	-
Site Marking (Acres)	NA	759	408	311	662	764
Site Thinning (Acres)	NA	882	521	792	694	1,173
Prescription Burn (Acres)	NA	917	709	834	557	1,210
Police						
Felony reports	NA	NA	NA	4,979	5,337	4,973
Misdemeanor reports	NA	NA	NA	12,378	13,381	13,123
Domestic violence incidents	NA	NA	NA	1,464	1,598	1,625
Non-crime reports	NA	NA	NA	8,818	9,136	8,913
Accident reports	NA	NA	NA	3,616	3,313	3,374
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239	75,791
Calls dispatched to Fire	NA	NA	NA	11,266	11,741	12,364
Calls dispatched to Medical	NA	NA	NA	9,435	9,175	9,960

Schedule 20 (continued)
City of Flagstaff
Operating Indicators by Function /Program
Last Six Fiscal Years

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Streets						
Potholes repaired	NA	NA	NA	2,988	1,962	2,443
Airport						
Fuel Flowage (Gallons Sold)	713,193	698,227	673,786	653,743	705,638	643,643
Enplanements	36,057	34,984	38,387	42,483	39,646	44,598
Refuse collection						
Refuse collected (Landfill tonnage)	110684	128153	109608	140233	154321	153121
Recyclables collected (total tons)	7886	9126	9213	9816	9866	10356
Community Development						
Residential Permit Valuation	59,963,201	78,719,935	67,214,811	87,180,707	97,895,269	
Commercial Permit Valuation	29,051,528	12,843,323	18,123,934	12,324,654	26,130,677	
Library						
Visits	NA	NA	564,065	582,726	625,103	643,174
Circulation	NA	NA	781,893	776,180	758,468	789,621
Tourism						
RevPar	48.33	45.36	47.95	52.90	61.47	66.86

Sources: Various city departments

(1) This information is gathered and reported on a calendar year basis versus a fiscal year basis for all other measurements

These accumulation of these statistics began in FY2002 so 10 years historical information is not available.

Schedule 21
City of Flagstaff
Capital Asset Statistics by Function /Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public Safety										
Police patrol units										
Number of fire hydrants										
Number of fire stations	28 Unavail 5	28 Unavail 6	31 Unavail 6	32 Unavail 6	32 2,382 6	32 2,435 6	26 2,478 6	26 2,478 6	26 2,598 6	31 2,743 6
Culture and recreation										
Number of developed parks	31	31	31	26	27	27	28	27	27	27
Number of undeveloped parks	Unavail	Unavail	Unavail	3	3	3	4	4	4	4
Park acreage	602	602	602	578	586	586	704	702	702	705
Flagstaff Urban Trail System - Miles	19	19	19	21	22	22	28	32	34	34
Total number of recreation facilities	60	60	83	88	90	92	124	122	122	123
Highways and Streets										
Miles of streets, alleys, and sidewalks	321	324	324	330	350	350	365	365	386	403
Number of street lights	2,708	2,740	2,768	2,777	2,853	2,898	2,921	2,921	3,037	3,107
Water and wastewater										
Miles of sewer	227	231	237	243	250	271	275	275	293	309
Number of manholes	Unavail	Unavail	Unavail	Unavail	5,857	5,979	6,097	6,097	6,496	6,906
Total active water accounts	14,690	14,961	15,230	15,600	15,802	16,356	16,948	18,039	17,872	18,758
Average gallon water usage per household per month	6,911	6,576	6,546	6,848	6,897	6,727	6,070	6,096	5,488	5,600
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	110	110	130	130	130	130	130	130	130	134
Tiedowns	49	49	49	49	49	49	49	29	18	11
Enclosed hangars	33	33	47	47	42	42	42	42	61	61
Open hangars	38	38	38	38	38	38	38	38	48	48

Schedule 22

City of Flagstaff

Insurance Summary

In Effect June 1, 2007 to June 1, 2008

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance: General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's) Law Enforcement Liability* Auto Liability* Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95) Employment Practices Liability* (Claims Made Retro Date 6-1-95) Employee Benefits Liability* (Claims Made) * Liability Claims are Subject to a \$50,000 Self Insurance Retention Employer's Liability Worker's Compensation	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 5,000,000 / each wrongful act \$ 5,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 3,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit Statutory	Property Insurance: Blanket Buildings and Personal Property Flood Zones B and C Earthquakes Business Income/Extra Expense Auto Physical Damage Flood Zone A Properties Municipal Court City Hall, Library Contractors Equipment (actual cash value) Lab Equipment Employee Hand Tools Computer Equipment and Peripherals Computer Data and Media Laptops and Portables - Replacement Cost Coverage Scheduled Fine Arts Fine Arts Exhibition Floater City Hall, Visitor Center, Airport Terminal Boiler and Machinery Crime: Blanket Public Employees and Treasurer Dishonesty Bond Including Faithful Performance of Duty Computer Fraud Theft, Disappearance, & Destruction (Inside and Outside) International Travel - Executive Assistance	\$ 114,205,703 / \$25,000 deductible \$ 10,000,000 / \$50,000 deductible \$ 15,000,000 / \$25,000 deductible \$ 7,000,000 / 24 hours \$ 18,850,061 / \$1000/comprehensive / \$5000/collision deductible \$ 220,000 / building \$ 116,900 / contents \$ 500,000 / each building \$ 500,000 / contents each (\$5,000 deductible) \$ 4,806,282 / \$5,000 deductible \$ 11,300 / \$1,000 deductible \$ 35,000 / \$1,000 deductible \$ 1,190,000 / \$1,000 deductible \$ 500,000 / \$1,000 deductible \$ 248,500 / \$1,000 deductible \$ 24,000 / \$1,000 deductible \$ 25,000 / each location \$ 1,000 deductible \$ 25,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 250,000 / \$5,000 deductible \$ 5,000 / \$500 deductible \$ 1,000,000 / Medical Assistance \$ 250,000 / Accidental death
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability Public Entity Management, Employee Benefits (Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse) Excess Liability #2 Following Form Over Excess Liability # 1 (Excluding asbestos, discrimination, terrorism, nuclear) Aviation: Products/Completed Operations Liability, Contractual, Construction & Demolition Hangar Keepers Liability	\$ 20,000,000 / each event/each wrongful Act / general total limit \$ 5,000,000 / each occurrence/ \$ 5,000,000 / general aggregate \$ 30,000,000 / each occurrence \$ 30,000,000 / aggregate \$ 30,000,000 / each aircraft \$ 30,000,000 / each occurrence		





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